

# Social enterprise and market orientation: roles and relationships for the management of sustainable supply chains<sup>1</sup>

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## Abstract

**Purpose of the paper:** This article explores the management of sustainable supply chains by social enterprises that sell ethical products in the mass market. This phenomenon is considered part of a growing openness to markets in some nonprofit organizations.

**Methodology:** The analysis considers case studies of two social enterprises, Altromercato and Libera Terra.

**Results:** Results indicate the main mechanisms in the management of supply chains by a social enterprise, highlighting the need for a hub in the management of profit-nonprofit relationships. This role is characterized by four main tasks: quality assurance, training and education, experimentation/coordination, harmonization of material and information flows.

**Research limitations:** This study addresses two cases, and future research in this area should extend the analysis to a higher number of nonprofit organizations.

**Practical implications:** This article describes the main dynamics of change for nonprofit organizations in the process of opening towards the mass market, concentrating on the ways in which it is possible to manage supply chains and downstream markets in line with their social mission.

**Originality of the paper:** This article shows the existence of a gap in the literature regarding the presence of nonprofit focal actors in the management of ethical product supply chain.

*Key words:* sustainability; supply chain; distribution channels; social enterprise; nonprofit

## 1. Introduction

The concept of sustainability has entered into daily conversation and the conduct of business, influencing how they unfold and encouraging the introduction of new approaches to the use of resources and the control of markets (Keijzers, 2002). Growing attention to environmental, social,

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and economic issues has taken on new dimensions and is progressively manifesting itself in several areas of application within the organization of sustainable supply chains (Closs *et al.*, 2011). This will be obvious considering, for example, the lower consumption of natural resources in favor of the use of recycled materials by manufacturing companies that operate in the traditional sectors of clothing (Caniato *et al.*, 2012), agri-food (Beske *et al.*, 2014), or construction (Sev, 2009). Further, the progressive use of alternative over traditional energy sources (Panwar *et al.*, 2011); reductions in polluting agents and emissions (Vachon and Klassen, 2008); improvements in working conditions, such as in guaranteed minimum wage, fair working hours, and protection of human rights (McCrudden, 2004); the implementation of marketing policies aimed at promoting responsible purchasing behavior (Becker-Olsen *et al.*, 2006); and the adoption of new and adequate certification systems and the preparation of appropriate management and communication tools, such as ethical codes and social budgets (Spence, 2007) also reflect this same overall pattern. The general trend is expressed and realized in the assumption of behaviors or the creation of products that have ethical aspects, that is, which incorporate one or more social or environmental principle that can influence consumer purchase decisions (Crane, 2001; Bezençon and Blili, 2010).

In the academic literature, this dynamic has been investigated and developed, above all, in for-profit enterprises. In the face of growing public scrutiny and greater consumer awareness of social and environmental issues, many companies have increased their commitment to ethical initiatives, allocating a growing share of their financial and organizational resources to these activities, increasing their reputation and acceptance by consumers and by external interlocutors in general. On the other hand, little attention has been paid to the role played by nonprofit organizations, which are often considered to occupy a subordinate position (Kim *et al.*, 2012).

This article explores these recent changes in the organizational practice dimension and brings original findings to the specific discussion of sustainable supply chains. In particular, its main purpose is to understand the configuration and management of the supply chain of ethical products proposed by nonprofit organizations, which can take on an entrepreneurial structure. Some social enterprises carry out productive activities and operate in the market, generating benefits for the disadvantaged and entire local communities, and, in some cases, create and commercialize products that have ethical connotations that are capable of competing on the market with goods offered by for-profit enterprises that are not characterized in the market in the ethical dimension.

Pursuing this objective, the study is organized in the following manner: in the next section, a review of the literature is presented, focusing on the concept of sustainable supply chain and the role of social enterprises in the dynamics of openness to the market. Following a description of the methodology (Section 3), the results of empirical research are described (Section 4). The article concludes with a discussion of the results (Section 5) and a characterization of the main implications (Section 6).

## 2. Sustainable supply chains and the role of nonprofit organizations: a review of the literature

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### 2.1 Supply chains and sustainability

Supply chain management has been impacted by the growing importance of sustainability issues within companies and organizations. This is reflected in the literature on management (Linton, 2007). To begin with a definition of sustainability, we refer to one of the earliest statements of this concept, proposed by the World Commission on Environment and Development (1987): sustainable development is “the development that meets the needs of the present without compromising the ability of future generations to meet their needs”.

The idea of a sustainable supply chain is a relatively more recent topic. The literature review conducted by Massaroni *et al.* (2015) indicates that it is only in the last decade that scientific studies of management have concentrated on this topic, at least in a way that indicates a more thoroughly developed perspective.

Brandenburg *et al.* (2014) highlight the existence of only a few contributions that take into account all three pillars of sustainability in accordance with the triple-bottom-line approach (Elkington, 1998): environmental, social, and economic. Most studies focus on environmental sustainability, emphasizing the green management of supply chain relationships (Massaroni *et al.*, 2015).

Over the last decade, a more holistic view of sustainable supply chains has been developed, defined by Seuring and Müller (2008, p. 1700) as “the management of material, information and capital as well as the development of supply chains while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social”.

A great deal of the work on sustainable supply chains focuses on strategies implemented by companies that are typically profit-oriented, though these strategies are often conceptually included within the broader theme of corporate social responsibility (CSR) (Carter and Easton, 2011). Carter and Jennings (2002), for example, study how companies implement CSR policies in the logistics function, identifying the most relevant aspects here: purchase management, transport management, and warehouse management. The main relevant practices for the management of logistics, purchases, and the entire supply chain in general bear on health and safety, animal protection, environmental protection, supporting local communities, work, and human rights (Maloni and Brown, 2006).

A portion of the literature focuses on the conduct and management of sustainable supply chains. Pagell and Wu (2009) summarize the empirical work in these areas: existing best practices as a foundation for sustainability; need for integration (sustainability objectives, practices, and awareness must be integrated within each organization in the supply chain and between them); and reconceptualization of the supply chain. For this last, Pagell and Wu (2009) demonstrate how the literature highlights the inclusion of non-governmental organizations (NGOs), nonprofit organizations, and members of the community as an emerging theme

(Seuring, 2004). This confirms that the dominant literature on sustainable supply chains focuses primarily on the key figure of a profit-oriented company that develops issues of social responsibility and sustainability within its organization and in its management of supply chain relationships (Tencati and Pogutz, 2015).

This line of literature appears to ignore situations where a nonprofit organization or a social enterprise is the central actor in the supply chain; instead, they are viewed as partners only included in supply chain relationships as part of CSR strategies (Seitanidi and Crane, 2009; Seuring, 2004). As Zhu *et al.* (2018, p. 5708) find in a review of the literature on sustainable supply chains in the food sector: “nonprofit organisations seem to be relatively seldom of interest in existing published literature”.

Usually, nonprofit organizations operate in sectors that are entirely oriented to nonprofits. They have dedicated supply chains in which all operators share the same values and the same social goals, guaranteeing strategic and managerial similarities. The management literature that analyzes nonprofit organizations and their supply chains falls into two main areas of study.

The first investigates supply chains in relation to social welfare, which Adivar *et al.* (2010, p. 292) define as “the processes of designing, planning and implementing a wide range of social development and improvement programs involving all the logistics activities in meeting the needs, managing social problems and maximizing the opportunities for the purpose of improved social welfare”.

In general, in discussions of social welfare and the welfare state, we are referring to a whole series of welfare services provided by the state or local governments that are often outsourced to increase efficiency (Hood, 1991). As indicated by the literature, it is precisely NGOs and nonprofit organizations that play the dominant role in the provision of these services, which are intended, for example, to develop and improve the social well-being of the poorest populations (Van Slyke, 2006; Austin, 2003).

In the supply chains of organizations concerned with social welfare, procurement, transport, and storage come into focus whenever a nonprofit organization receives financial flows from donors or public institutions that would allow it to provide goods or services for groups of beneficiaries. The literature shows how these activities, as carried out by nonprofit organizations, often require them to cope with obstacles such as the failure to recognize the importance of logistics, the lack of professionals, the limited level of collaboration and coordination, and the inadequate use of information technology (Adivar *et al.*, 2010).

The supply chains of nonprofit organizations are also subject to humanitarian conceptions of logistics or humanitarian relief chains, defined by Beamon and Balcik (2008, p. 4) as supply chains that provide “humanitarian assistance in the form of food, water, medicine, shelter, and supplies to people affected by large-scale emergencies”. This context is, therefore, closely linked to the sudden onset problems, such as disasters and calamities, and consequently, to the management of emergencies (Kovács and Spens, 2009). These supply chains, precisely because they are activated by emergency situations, have particular characteristics, such as

agility (Cozzolino, 2014), uncertainty and risk (Van Wassenhove, 2006), and speed (Beamon and Kotleba, 2006). Furthermore, characteristics such as the high number of subjects with different natures involved (McLachlin and Larson, 2011) require, on the one hand high levels of coordination (Balcik *et al.*, 2010) while on the other hand, they allow a high degree of interchange and mutual learning among the various actors (Cozzolino, 2014).

In summary, the literature on sustainable supply chains shows two main strands: supply chains in which the key player is a for-profit enterprise and those in which it is a nonprofit organization. The introduction of sustainability practices into the supply chain relationships of for-profit companies leads to the introduction into the market of products with ethical characteristics (Carter and Jennings, 2002; Seuring and Müller, 2008), including one or more social and/or environmental attributes capable of differentiating the positioning (Crane, 2001; Bezençon and Blili, 2010). In place of cases where a sustainable supply chain is addressed by a nonprofit, the literature instead proposes cases of welfare services or humanitarian interventions (Adivar *et al.*, 2010; Beamon and Balcik, 2008), in the areas that are typical of the third sector. More recently, however, the management literature has focused on the opening of nonprofit organizations to the market (Borzaga and Fazzi, 2014), with particular reference to social enterprises. Social enterprises are increasingly able to offer products (with intrinsic and obvious ethical characteristics) on the market that are a manifestation of their dual social and commercial identity.

This consideration indicates the potential interest of analyzing the case of the management of sustainable supply chains led by nonprofits that have as their final outputs the marketing of a product that competes in the market. To locate this issue in the management literature, a bibliographic search was conducted using the Scopus database. The following key words were used: “sustainable supply chain” AND “social enterprise” for “title, abstract, keywords, ” limited to the categories “business, management, and accounting” and “articles”. The inquiry resulted in only two papers, one of which is not focused on the studied topics (Miemczyk *et al.*, 2016) and the other which is a didactic text reporting a business case without reflection or discussion of implications (Walske and Tyson, 2015). Since in the international literature social enterprises are considered one of the most emblematic examples of hybrid organizations (Battilana and Lee, 2014), a similar study was carried out in the Scopus database, using the key words: “sustainable supply chain” AND “hybrid organization, ” but this did not return any result.

This article intends, therefore, to bridge the gap in the literature, analyzing the specific case of sustainable supply chains directed by social enterprises that bring a product to the market. To fully understand this specific actor and its logic and dynamics, in the following section theoretical reflections regarding the opening of social enterprises to the market will be presented.

The issue of openness to the market of nonprofit organizations is investigated in the management literature in various ways (Maier *et al.*, 2016). However, as previously noted, the prevailing view defines and frames it in relation to the function of advocacy (Padanyi and Gainer, 2004; Gonzalez *et al.*, 2002). In this perspective, nonprofit organizations assume an essentially associative nature and aim at finding new financial resources through the acquisition of adequate marketing skills (Sargeant *et al.*, 2002) and the collaboration with for-profit companies that are implementing CSR policies (Jamali and Keshishian, 2009; Seitani and Crane, 2009). Such nonprofit organizations continue to carry out awareness-raising activities and involvement in certain social or environmental issues while at the same time exposing themselves to the risk of transforming their identity profile (Dolnicar *et al.*, 2008; Eikenberry and Kluver, 2004).

At the same time, other nonprofit organizations try to face new and different challenges. Due to the complexity of their activities and the nature of the goods and services offered, they have an entrepreneurial orientation. These organizations are generally called social enterprises. They conduct productive activities following entrepreneurial criteria but pursue an explicit and exclusive social purpose that results in the generation of direct benefits in favor of disadvantaged people or entire territorial communities (Galera and Borzaga, 2009; Defourny and Nyssens, 2006). In the international and academic literature, this specific organizational typology is also termed, although not univocally or in a shared way, hybrid organization, to highlight how, unlike other types of organization in this category, it combines an exclusively social aim with economic and financial sustainability (Doherty *et al.*, 2014).

In the national context, this phenomenon is represented by social cooperation, in the forms of production and provision of welfare services (Type A social cooperatives) and employment integration for disadvantaged people (Type B social cooperatives). Social cooperation has constituted, beginning at the end of the 1970s, an innovation in the nonprofit sector and a pioneering model, on the basis of which social enterprise was developed in Europe (Defourny and Nyssens, 2010).

Traditionally, social enterprises are engaged in the production and provision of welfare services, in a logic of close collaboration with public administrations (Kerlin, 2013; Defourny and Nyssens, 2010), which, in several cases, has shown an intensity that determines what has been defined as a process of institutionalization (Borzaga and Fazzi, 2011), namely, a situation of strategic subordination and financial dependence on public players.

Over the last few years, however, there has been a significant increase in the conditions of hardship and social marginality among a growing part of the population, and by contrast, a tendency of reduction in traditional sources of public financing for welfare services. These are leading to a redefinition of the activities of social enterprises and to a greater openness to the market. This new orientation has led social enterprises to progressively work in new areas of intervention, often far from their

traditional ones. They are developing new specialized technical skills, networks, and relationships with a plurality of subjects and organizations that have varying institutional natures (for-profit, nonprofit, public, and private). They are diversifying their sources of financing, no longer primarily made up of public resources or philanthropic donations, but instead of revenue from market operations. They are activating, with a view to environmental, social, and economic sustainability, the processes of the involvement and participation of entire local communities (Picciotti, 2017; Borzaga and Fazzi, 2014).

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This openness to the market is being realized in different ways. Some companies are exploiting the specialized skills they have acquired and are beginning to offer social services to private clients (Maier *et al.*, 2016). This is occurring in the direct management of residences for the elderly without public assignment and in the management of nursery schools following the logic of corporate welfare (Maino and Ferrera, 2015). It is also appearing in family care services and nursing services that are offered directly to families. Other companies, while they continue to manage certain welfare activities, are developing new services that are additional and complementary to those traditionally provided. As observed by Evers (2005), this is the case, for example, in new services that are introduced into the management of a theater, a museum or a swimming pool that bring in additional financial resources, improve the overall supply system, and carry out experimentation in organizational models based on the logic of public-private collaboration. In other cases, market openness is not achieved through the provision of services but through the sale of products destined to a final consumer market that compete with other products offered by for-profit companies. These are social enterprises that provide employment for disadvantaged people, the so-called work integration social enterprises (Spear and Bidet, 2005; Davister *et al.*, 2004), which may produce products that are particularly appreciated by consumers, such as items of clothing, fashion accessories, or home furnishing, as they incorporate and combine quality and social values (Tasavori *et al.*, 2018). Finally, in different circumstances, social enterprises are going beyond exhibiting openness to the market, instead creating it by aggregating those people who are present in a territorial community and providing them, through their own participation, goods and services that have been offered neither by the public nor by the market. These operations have led to the reopening of cinemas, shops, and other businesses in the historic city centers or in other disadvantaged areas, as well as constructing residential housing projects for people without access to the traditional market and disseminating or providing community management for renewable energy sources (Bernardoni and Picciotti, 2017).

Thus, we are witnessing a shift from supply chains characterized exclusively by the presence of nonprofit actors. This kind of supply chain was based on the affinity between organizations with established business relationships, guaranteeing greater strategic and managerial homogeneity but not allowing effective achievements or wide market coverage. The literature indicates a new and emerging type of supply chain, in which nonprofit organizations with an entrepreneurial matrix, i.e. social

enterprises, take on a focal role in planning and managing activities. This is a supply chain that involves the simultaneous presence of for-profit and nonprofit subjects, typically characterized by different organizational structures, aims, competences, and speeds and that, for these reasons, can generate critical issues and require new management logics.

In the context in which social enterprises can offer ethical products on the market, how are supply chains strategically and operationally managed? What solutions are being adopted to reduce divergences between for-profit and nonprofit actors to optimize supply chains? Who are the key players that are implementing these solutions, and what functions do they perform? This study seeks answers to these questions, describing the experience of the entrepreneurial realities of two companies that are emblematic examples of these new types of supply chain.

### 3. Methodology

This article exhibits a multiple case study (Yin, 1994). The case study is particularly suitable in situations where the topic to be investigated has an exploratory nature, such as the one considered in this paper, that focuses on the main functions performed by a social enterprise as leading actor in a supply chain. The management literature (Eisenhardt 1989; Eisenhardt and Graebner, 2007) indicates the appropriateness of the use of the case study to understand complex phenomena for which the theoretical development is not consolidated. The case study, in this sense, is a suitable method of empirical research because it allows to understand a recent phenomenon in depth within its own context (Miles and Huberman, 1994).

A multiple case study makes it possible to compare more than one reality to identify commonalities or differences in a theme (Yin, 2003; Stake, 2013). In particular, in the literature, the investigation of more than one case increases the external validity of the results (Gibbert *et al.*, 2008). Although case studies are not generalizable, the comparison of case studies can highlight paths and dynamics that derive from comparative analysis of different organizational contexts. Here, the cases analyzed are those of Altromercato Impresa Sociale (Altromercato) and the Libera Terra project. These were chosen using a theoretical sampling (Eisenhardt and Graebner, 2007) that included selection criteria. The two organizations investigated in this article are both social enterprises and national leaders in the creation and marketing of ethical products: fair trade products in the one case and products derived from the use of land confiscated from the mafia in the other. These cases were identified due to the ease of access to information and data on them (Yin, 2003) because the authors collaborated in research with the two companies on the topics covered in this paper.

Altromercato is the largest Italian importer of fair trade products. It has commercial relationships with about 120 disadvantaged farmers and artisans in the Global South and sells the products through its own distribution network and through some of the principal players in the Italian large-scale retail channel. Libera Terra is the primary initiative that produces and markets the products of social cooperatives working land

confiscated from the mafia and that produces both agri-food products and agricultural raw materials, which, once transformed, are sold at supermarkets and modern retail outlets.

The origin of the information for the case studies is presented in the following paragraphs.

The main source of information was semi-structured interviews conducted with company representatives from 2013 to 2019. The interview protocols were prepared ad hoc, as suggested in the literature (Gibbert *et al.*, 2008), including the following topics treated in depth: the main dynamics and evolution of company strategies, supplier relationships and changes in supply approaches, relationships in the distribution channel and main players in distribution, and changes in end markets and business relationships with the market. In these interviews, open questions were generally used to allow the subjects to express their opinions without being unduly influenced by the researcher, following suggestions in the literature for improving rigor in the research results (Gioia *et al.*, 2013). The interviews were recorded and subsequently transcribed. Seven interviews were conducted with Altromercato and five interviews were done with Libera Terra. The manager of Altromercato procurement and cooperation office and the managers of the large-scale retail unit were interviewed. The interviewees for Libera Terra were with various managers, who have changed over time, in the agency Cooperare con Libera Terra (Cooperate with Libera Terra). The interviews were supplemented with secondary data found in both internal and external sources. To triangulate data and for greater reliability of the results (Eisenhardt and Graebner, 2007; Stake, 2013) for the entire period 2013-2019, information was collected from corporate websites, annual reports, company presentations, and articles published in newspapers and magazines.

The case studies were carried out using the information collected in the interviews and from a continuous comparison of proposals in the secondary sources. The analysis of the data, for the purpose of the study, included discussion among the authors of this paper (Stake, 1995), intended to identify the main dynamics of supply chain management. As indicated in the literature (Gioia *et al.*, 2013), each author read the interview transcripts individually to identify the main emerging themes. Then, authors discussed their separate interpretations and the themes they identified. Finally, they reached a full agreement and shared a common vision on the main dynamics of the supply chains and distribution channels management. In this way, the secondary data collected were used to support and supplement what emerged from the interviews. In the course of the investigation, the cases were first presented individually, proposing the presentation of the aspects that characterize the profile, and the main characteristics of the company's undertakings in the supply markets and the distribution channels. Due to the absence of a consolidated theoretical framework in the literature, this analysis was performed by presenting the main elements related to the change in the management of the supply and distribution markets. This approach exhibits an evolutionary focus. Subsequently, in the discussion, a comparative view of the cases is proposed to address the research questions.

## 4. The results of the empirical research

### 4.1 *Altromercato case study*

Altromercato was established as a cooperative in Bolzano at the end of the 1980s. Since that time, it has been importing food and handcrafted products that are in compliance with international norms of fair trade that are intended to create commercial opportunities for economically disadvantaged producers. Its strategies have led to a constant growth, and Altromercato has been, since the start, the principal Italian fair trade organization and one of the most important in Europe.

At the end of the 1990s, the cooperative changed its legal form, becoming a consortium of cooperatives and associations that manages approximately 300 “world shops” (*botteghe del mondo*) in Italy. These world shops, sales points specialized in the marketing of fair trade products, have practically represented the only access to Altromercato market. However, a recent turn toward openness for distribution channels has appeared, which is discussed below.

#### 4.1.1 *Altromercato supply chain*

The activity upstream of the supply chain focuses on supporting artisans and farmers in the most disadvantaged areas of the planet, marketing products that have been made in the Northern Hemisphere. These producers are, therefore, Altromercato’s only suppliers, whose purchases respect the rules of fair trade. The company is a certified World Fair Trade Organization (WFTO), which guarantees that it is completely dedicated to conducting fair trade activities and respecting the principles contained in the International Fair Trade Charter. First among these is the fair price principle (which guarantees correct remuneration for productive factors and a surplus to invest in community projects), respect for the dignity of workers and the absence of child labor, environmental sustainability (most fair trade crops are organic), and the pre-financing opportunity (thus compensating for lack of access to credit). The WFTO has a complex guarantee system, verified in various and ongoing auditing activities in its organizations. In turn, Altromercato carries out specific and formalized evaluations and monitoring of the producers with whom it has a commercial relationship. Altromercato cooperation and purchasing unit first performs a preliminary assessment of the ethical, commercial, and qualitative characteristics of the producers. This is followed by bi-annual site visits by the Altromercato Project Committee, which is independent from the purchasing department and has an ethical supervisory function with the producers and their products to guarantee the application of the fair trade criteria, following the WFTO.

Altromercato imports from around 120 producers in 45 countries around the world, with particular concentrations in South America and Southeast Asia, from which it imports food products such as coffee, tea, sugar, chocolate, and honey, as well as textiles, clothing, handicraft products, cosmetics, and home accessories.

Altromercato manages all logistical aspects of the importation, and the supply relationships are managed by two internal bodies: the cooperation and purchasing unit and the procurement and logistics office.

The cooperation and purchasing unit maintains the direct relationships with the suppliers; as in other companies, this office manages information flows and dialogue for the development of new products and management of orders. In addition, however, due to the particular mission of Altromercato, this unit also manages all aspects related to supplier support, including technical training and implementation of development projects.

The procurement and logistics office deals with material flows once the products reach Europe. It deals with the aspects most closely linked to transportation and bureaucratic practices (for example, customs duties) but also with subcontractor relationships. Some products are not supplied directly by producers but are developed through the use of their materials by companies located in Italy.

#### *4.1.2 Altromercato distribution channels*

Altromercato also incorporates all the downstream activities necessary for bringing the products to the final consumer. Until the 1990s, as previously mentioned, sales took place exclusively through world shops, guaranteeing an exclusively nonprofit chain, capable of maintaining identity and value consistency. At the end of the 1990s, a radical strategic decision was made that led to the opening of large-scale retailers. Currently, Altromercato supplies approximately 20 supermarket/hypermarket chains, organic retailers, and other distributors throughout Italy.

This openness towards profit has allowed Altromercato to extend its outlet market, expanding accessibility to its products and guaranteeing them access to larger markets. Working with large-scale for-profit retailers has also led to a rethinking of its internal organization and of the skill set that is necessary to establish such relationships.

At the beginning of the twenty-first century, Altromercato created its own quality control office and a department that manages relationships with large-scale retail trade. The quality control office makes it possible for the company to apply a quality management system based on production locations. As the purchasing manager noted, from an operational point of view, “we always ask for pre-boarding samples to understand if the lot that will be shipped conforms to standards. At the arrival of the lot, the sampling is repeated and quality and compliance are checked again with respect to the pre-shipment. In many cases, our quality control office also carries out audits on the suppliers at the beginning of the business relationship”. The goal of this organizational unit is to improve methods of quality control and production technologies, increasingly oriented towards quality and safety. Thus, Altromercato is a guarantor of the quality standards required by its distributors and the market in general, taking responsibility for the training needed by its producers.

The large-scale retail unit was created to guarantee a specific and specialized dialogue with this sector, which is profoundly different from the world shops.

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The relationships with the for-profit businesses that have been established over the last twenty years have led to the need to internalize competences related to communication, branding, packaging, merchandising, and product innovation. For innovation in particular, the company has introduced new products, in assortments, in line with the request of its retail customers, and these products have also been marketed with co-branding strategies. A supervisor of this unit reported that “up to now the products produced were all for the shops. Now, in the development phase, we are trying to be more involved by identifying what the predominant market may be for the single product being created. There is a greater awareness of Altromercato’s multi-channel distribution, and ad hoc strategies for large-scale retail channel are being applied”.

The need to acquire new skills and competences has led, in recent years, to a change in the recruitment policies of the human resources working at Altromercato. Some internalization of new skills has taken place in recent years, thanks to the recruitment of highly trained staff with bachelor’s and master’s degrees earned in different parts of Italy, along with professionals with experience in important for-profit organizations.

Finally, the changes made by Altromercato in its distribution policies have also led to changes in procurement strategies. The purchasing manager said, “even when we are looking for new producers we always start with the need for marketing, market analysis, and what we lack in scope. We always consider our original mission, which is to work with suppliers that would otherwise be excluded, but now we keep in mind a combination of assistance for the most disadvantaged suppliers and a search for those who guarantee quality and commercial safety”. Previously, only ethical considerations were prioritized, but now, even if these remain a fundamental principle for the identity of the company, market needs must also be taken into consideration. Altromercato is the spokesperson for these needs and stimulates its suppliers to propose new products that are in compliance with quality standards, deadlines, and commercial commitments.

#### *4.2 Libera Terra case study*

Libera Terra project was launched in 2001, and its work has led to the establishment of nine social cooperatives, each of which is engaged in the cultivation or transformation of agricultural products from land confiscated from the mafia.

The dynamics of development that have emerged over the years have led to a particular configuration of supply chains, due to the relationships that social cooperatives have been able to establish on several levels: reciprocally, involving the creation of specific organizational structures, with a plurality of actors operating in the distribution sector and in relation to other profit-making organizations that carry out manufacturing transformations.

The most significant innovation in this context is the aggregation of social cooperatives and the related establishment of the Libera Terra Mediterraneo Consortium, through which supply chains and the relationships with commercial distribution are managed.

#### 4.2.1 *Libera Terra supply chain*

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The social enterprises into the Libera Terra circuit are all located in Southern Italy (five in Sicily, two in Calabria, one in Campania, and one in Puglia) and they show a significant level of specialization. Each of them produces specific products that are subject to successive transformations (the wheat grown, for instance, is used in the subsequent manufacture of pasta or other baked goods) or products that are directly commercialized (wine, fruit and vegetables, and dairy products, among others).

These organizations are located at the initial stages of the food processing chain. In the production of finished products, the social enterprises are highly integrated, but in other cases, they supply raw materials to processing companies that produce Libera Terra brand products. The entry of new companies into the Libera Terra project requires compliance with production regulations (including professional standards for the granting and use of the Libera Terra brand), conformity with standards that allow cooperatives and their aggregations to request the use of the Libera Terra brand if they manage assets confiscated from organized crime; without managing confiscated assets, adhering to Libera Terra and providing services to support cooperatives that do; or being involved in the liberation of territories and their return to sustainable and participatory use. These enterprises must not only comply with certain value requirements for legality and morality and ensure adequate working conditions for their employees and suppliers, but also guarantee quality prerogatives of the entire production and management processes. They are thus subject, both in the initial phase of entry and in subsequent phases of extension of product lines or brand maintenance, to controls by a third-party certification body, the consortium Il Biologico, which follows the UNI CEI EN 45011 requirements and performs analysis (chemical-physical and qualitative-organoleptic analysis, compliance with hygiene and health standards, and biological certification) of samples. Furthermore, this consortium periodically conducts field checks to verify compliance with the requirements of the regulations.

These controls and checks extend in two directions: on the one hand, to the for-profit manufacturing companies that deal with the transformation of agri-food products and are required to comply with quality and ethical standards in product specifications; on the other hand, to independent agricultural producers in the same territories as the social cooperatives. Indeed, due to increases in demand in the market, these enterprises could become suppliers for social cooperatives, providing shipments of raw materials.

#### 4.2.2 *Libera Terra distribution channels*

The development of agricultural activities began with the supply relationship that the first social cooperatives established with Coop, one of the main large-scale retailing chains operating in Italy and organized as consumers cooperative. As noted by the current manager of Cooperate with Libera Terra: “this first experiment determined the need to establish

a dialogue with consumers, who requested to take the products that came from the cooperative. From this experience we began to structure a path of entrepreneurial qualification that has been strengthened over time, calling into question other cooperatives that have accompanied the development of new businesses". This relationship is, therefore, configured as an investment in the values and potential of the Libera Terra project by the cooperatives. The relationship stems from a decision that the distributor makes to support social cooperatives as they begin their activity. This opening, however, does not occur unconditionally. Therefore, the manufactured products can remain on the shelf without becoming a simple request for charity toward the final consumer. The ethical value of the products, namely, their legality and the fight against the mafia that they represent, must be accompanied by qualitative requirements: the ability to compete with competitors, generally represented by for-profit companies. To this end, a new organizational structure was established in 2006, and Cooperare with Libera Terra was founded, which, including over 70 members among territorial associations and cooperative enterprises, is expected to support individual social cooperatives through training interventions and consultations with the aim of facilitating the transfer and reinforcement of agronomic, commercial, and managerial skills. In this way, Libera Terra's individual social cooperatives can improve the level of quality of their products and forecast demand flows coming from the market to plan production activities, manage customer relations from a logistics and marketing point of view, and monitor internal economic and financial aspects. As stated by the current manager of Cooperate with Libera Terra, "the association deals with the transmission of know-how. In the first instance, it accompanies the cooperatives in mapping their needs, in drafting the business plan and in defining development paths. Then, it acts with a view to the further structuring of the entrepreneurial project and continuous monitoring".

This organizational innovation has led to an expansion of distribution channels, bringing a greater variety of distribution methods (as in the case of food industry channels or specialized retailers for the marketing of certain products, such as wine) and in terms of acquisition of new customers within the same distribution channel (as in the supply of products to other large-scale retail chains, also organized in a non-cooperative form).

As a result of these dynamics, the Consortium Libera Terra Mediterraneo was set up in 2009, aggregating eight of the nine social cooperatives and thus representing the true hub of the Libera Terra system. This associative entity carries out, on behalf of the individual companies, demand forecasting, development of manufacturing agreements, and planning and control, as well as design and implementation of all marketing policies, from the definition of new products to the enhancement of the brand and the realization of communication campaigns. The current manager of Cooperate with Libera Terra highlights that "the hard work that the consortium does is to balance demand with supply because the latter is limited. The consortium controls the entire supply chain, not only from a quantitative point of view but also by verifying the presence and persistence of ethical and value requirements. In addition to all this, it is the center

where marketing policies are defined, new products are designed, the brand is discussed, and communication is developed”.

Currently, the Libera Terra supply chain is quite complex. Numerous actors take part in it, it takes on different natures (profit/nonprofit), and it conducts different activities (production/distribution/training, consultancy, and financial support). It also regulates intangible resources flows (market information or technical skills) and material resources (mix of agricultural production, external conferment, transformation, and supply of finished products), which require management with new organizational structures that can guarantee the necessary strategic and operational coordination.

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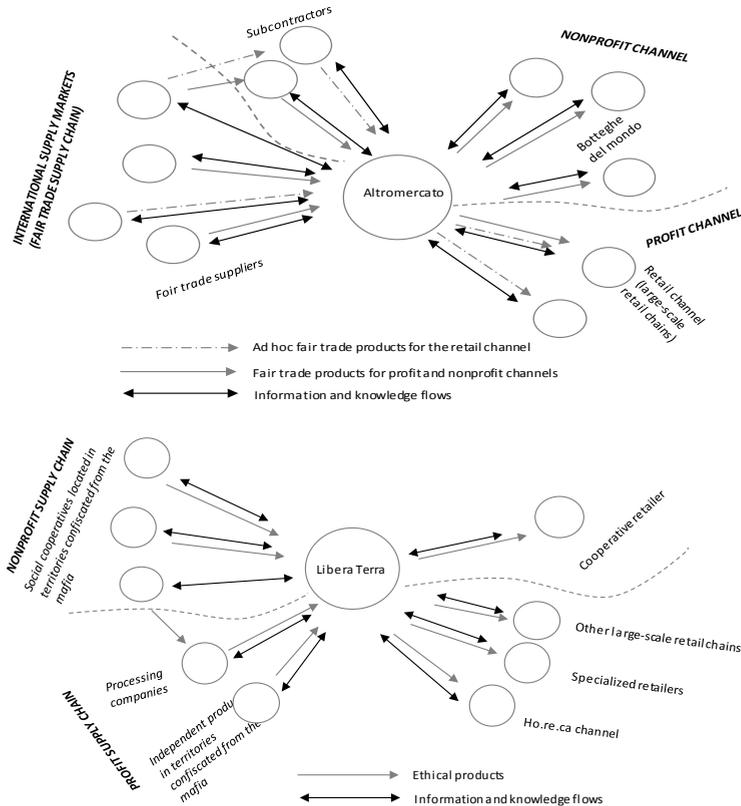
## 5. Discussion

The theoretical analysis and the empirical investigation allow us to highlight some relevant dimensions of supply chain management by nonprofit actors. The decision to operate in the mass market with a sustainable product requires a guiding actor in nonprofit chains with a meaning that differs from that highlighted in management theory. In this case, the element that changes, in comparison with the literature, is not the focal actor in the supply chain, which is already present in social welfare supply chains and in humanitarian relief chains (Adivar *et al.*, 2010; Balcik *et al.*, 2010), but, instead, the content of this role. The management of a supply chain is intended to develop products with the connotations of sustainability, and the products are then marketed in retail for-profit channels, ultimately destined to a clientele of consumers who are necessarily larger than and different from an earlier one. In the two cases analyzed here, product sustainability is mainly connected to the social dimension of the production. In the case of Altromercato, the product is the result of an entire production chain oriented to the principles of fair trade. For Libera Terra, its products respect the ethical values of legality and the fight against the mafia. In particular, taking into account the process of openness to the market (Maier *et al.*, 2016), in this section we propose the challenges that a nonprofit organization, such as those discussed in this investigation, must face in supply chain management to be able to effectively propose products that compete in for-profit environments.

The case studies show how there may be a necessity to reconcile needs coming from the nonprofit and for-profit worlds, given the articulation of both supply and distribution relationships. Figure 1 below displays a representation of the main for-profit and nonprofit actors with whom Altromercato and Libera Terra interact. As it is evident for the case of Altromercato, there are fundamentally two downstream markets, the “botteghe del mondo” (nonprofit channel) and large-scale retailers (for-profit channel). Upstream, the enterprise has relationships with companies in international fair trade chains while also making use of third-party companies in for-profit chains (such as suppliers for packaging). For Libera Terra, there are mainly social cooperatives located in territories confiscated from the mafia, although in recent years, as previously

highlighted, supply relationships have been established with independent agricultural producers and processing companies. Downstream, for Libera Terra, the main channel represented by cooperative distribution has been integrated by new channels.

Fig. 1: Summary representation of the main relationships in supply markets and distribution markets for Altromercato and Libera Terra



Source: authors' elaboration

With reference to the articulated set of profit-nonprofit relationships in social enterprises, supply chain management is a central activity. On closer inspection, as highlighted in the literature, the process of opening to the market places a particular emphasis on the identity of the social enterprise (Smith *et al.*, 2010), possibly undermining it. Then, wherever the actor is a leading player in a supply chain, the presence of relationships with both for-profit, largely in downstream retail (Crawford-Spencer and Cantatore, 2016), and nonprofit actors, in supply chains that support that openness, can generate difficulties for the company. In fact, in the two situations discussed, it can be clearly seen how social enterprises, both Altromercato and the social cooperatives of Libera Terra, have responded to the opportunities offered by the competitive context, activating relations downstream with large-scale retailers while at the same time trying to

strengthen the bond with nonprofit actors in their own network, to allow the offer of a product recognized by the nonprofit world as ethical (Crane, 2001) and in line with market standards, while being able to compete in profit contexts with other products.

Our analysis indicates the need for a social enterprise to perform a “shock absorber” function for the proper functioning of the supply chain of the nonprofit and for-profit worlds. This is to ensure that the two worlds can converge and allow the enterprise itself to grow, rather than representing two tendentially opposing forces that might push the company toward conflicting choices that could be an obstacle to its own survival.

Amortization can assume different configurations taking into consideration organizational dimension. In the examined cases, organizational dimension is maintained by a consortium (Altromercato and Cooperate with Libera Terra/Free Earth Mediterranean Consortium), to which the individual consortium members delegate the management of relationships with the for-profit world. These new subjects within them include organizational positions and functions that allow to dialogue with retail for-profit and nonprofit supply chain actors. However, beyond the precise form, the role of a “shock absorber” is characterized by the tasks that it must perform. Our empirical investigation allows us to specifically identify four tasks in supply chain management, that are also areas of challenge and if faced can allow the company to operate on the market with a sustainable product. Table 1 proposes a comparative view of the cases, with reference to the following four tasks: quality assurance, training and education, experimentation/coordination, and harmonization of material and information flows.

The first area of change connected to supply chain management concerns the role of the guarantor of quality, which the social enterprise must carry out. Compliance with quality standards is an element that is typically associated with the management of supply relationships by a company (Kannan and Tan, 2005), which for example can evaluate a supplier and its performance. In the cases we have analyzed, the concept of guarantor of quality in supply relations takes on a different strategic value. The guarantor of quality in this case is not merely an actor that can ensure standards compliance but instead one who responds to the need to reassure the for-profit actor regarding the quality standards required for the mass market. On the other hand, there is a need to develop this concept within nonprofit chains by contributing to make it legitimate as an integral part of the value of a sustainable product. In essence, in the case studies, compliance with ethical standards, whether the WFTO or Libera Terra’s production regulations, was seen to relate to new ways of defining quality in the market, seeking to reconcile standards compliance with consumer needs and through which the retail customers of the social enterprises are carriers in the interaction with the two realities. In this case, the dialogue by the social enterprise occurs both with the downstream for-profit world, whose needs it must understand for the intrinsic quality of the product, and with the organizations in the supply chain (social enterprises and actors in the fair trade supply chain) to understand how this concept can connect and progress with existing productions.

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*Tab. 1: The four tasks in the social enterprise shock-absorber function:  
Comparison of cases*

TASK	ALTROMERCATO	LIBERA TERRA
Guarantor of quality	<ul style="list-style-type: none"> <li>- Ensuring compliance with World Fair Trade Organization standards</li> <li>- Ensuring quality standards in response to the needs of large-scale retailers, offering a product for which fair trade is reflected on a wider public in the retail market</li> </ul>	<ul style="list-style-type: none"> <li>- Ensuring compliance with ethical standards and the regulation of agricultural production in the territories confiscated from the Mafia managed by member cooperatives and by independent agricultural producers with whom it interacts</li> <li>- Ensuring market standards for product development, mainly intended for cooperative distribution, where the ethical value linked to the fight against the Mafia combines with the intrinsic quality of the product</li> </ul>
Training and education	<ul style="list-style-type: none"> <li>- Technical support and development projects with economically disadvantaged producers, mainly in South America and Southeast Asia</li> <li>- Raising awareness on fair trade issues among the for-profit distribution companies downstream</li> <li>- Raising awareness of the world shops about the opportunities of the fair trade product for wider targets</li> </ul>	<ul style="list-style-type: none"> <li>- Training interventions aimed at the transfer of agronomic, commercial and management skills to the single social cooperatives belonging to the consortium with support in the preparation of business plans</li> <li>- Communication activities in downstream markets to raise awareness of the ethical and value issues of legality and the fight against the mafia</li> <li>- Understanding the main operating elements of the downstream markets for the development of the production of the cooperatives belonging to Libera Terra</li> </ul>
Experimentation and coordination	<ul style="list-style-type: none"> <li>- Joint development with retail customers of new products and co-branding initiatives</li> <li>- Coordination of suppliers for compliance with the standards of the retail market</li> <li>- Management of multi-channels through downstream coordination between world shops and large-scale retail channels.</li> </ul>	<ul style="list-style-type: none"> <li>- Creation of new products for cooperative distribution</li> <li>- Coordination with the upstream social cooperatives for the creation of new products and membership of new social cooperatives</li> <li>- Opening to new independent agricultural producers to expand the Libera Terra offer</li> <li>- Open to new retail customers and new channels (ho.re.ca, specialized retail)</li> </ul>
Harmonizing material and information flows	<ul style="list-style-type: none"> <li>- Transfer of commercial know-how both in the supply markets and in world shops</li> <li>- Management of logistics flows from international supply markets to sales markets both in the fair trade channel and in the large-scale retail channel</li> </ul>	<ul style="list-style-type: none"> <li>- Transmission of market know-how to cooperatives belonging to Libera Terra</li> <li>- Management of the logistics flows of the products of the cooperatives belonging to Libera Terra, of the independent agricultural producers, and of the processing companies for the respect of the standards required by Libera Terra distribution customers</li> </ul>

Source: authors' elaboration

This also leads to a second area of change that impacts supply chain management. In fact, the nonprofit actor must perform training and education in the link between supply chains and for-profit distribution channels. Training and education, which are part of general awareness-raising activities for social issues (Huybrechts, 2012), have a dual role in supply chain management. They are aimed at the for-profit actor, to raise awareness of the issues and of the specific mission, as can be seen, for example, in communication initiatives implemented by Libera Terra and in Altromercato's co-branding initiatives. This awareness-raising

activity features two peculiarities: it is carried out with typical methods of business dialogue and is intended to build stable relationships, avoiding spot interactions with for-profit actors focused on short-term goals. The objective is, therefore, to activate long-term cooperation mechanisms of a commercial nature with these actors (Ploetner and Ehret, 2006). However, training and education are also focused at suppliers in nonprofit sectors. This is done to raise awareness among suppliers regarding new needs and the ways these needs can be responded to, bringing the various actors in the supply chain to an understanding of the dimensions that create an overlap between the for-profit and nonprofit worlds, rather than those that generate conflicts, as can be seen in Table 1.

Another key role in harmonization is played by experimentation and coordination for the development of new products. Openness towards the market unavoidably pushes the nonprofit organization toward innovation in its management model (Huybrechts, 2012) and products, prompted by the downstream markets. A skill that the organization must have is leveraging supply chains to experiment with and create new products to offer to retail customers. In our cases, this has meant rethinking supply relationships, as in Altromercato's procurement and cooperation office or in the opening up to new cooperatives or external actors for Libera Terra. This is a clear implication, especially for a nonprofit organization. Experimentation can be fueled both by retail actors, who can push for the development of new products and by the internal capacity of the social enterprise to generate innovation. In the two cases analyzed here, the growing openness towards new channels generates opportunities and requests. As shown in Table 1, for Altromercato, this is the result of the expansion of relations with various players in the large-scale retail trade, while for Libera Terra it comes from the evolution of the relationship with the main clientele of the cooperative distribution and from the recent opening to new channels. It is evident that the dialogue between social enterprise and suppliers (fair trade actors for Altromercato and social cooperatives and independent agricultural producers for Libera Terra) must be continuous.

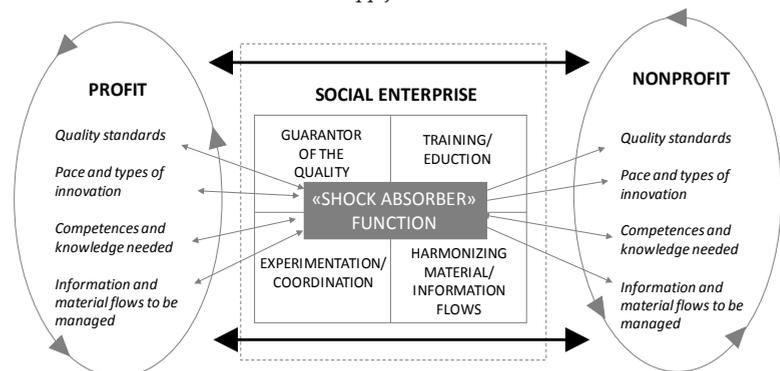
Finally, it is evident that supply chain management requires a social enterprise to be an actor capable of harmonizing material and information flows considering different functioning mechanism between for-profit and nonprofit supply chains. In fact, some features of the management of material and information flows may not be oriented, or only on a reduced scale, to dimensions that are central to the mass market, such as the need to reduce time to market or the problems of management of deliveries at points of sale. In the case of Altromercato, this activity is particularly complex, especially if we take into consideration the international dimension of the procurement processes and the related logistic flows. For Libera Terra, the complexity is evident, instead, in the opening to more subjects in downstream markets (beyond the traditional customer) and the expansion to new social cooperatives and new productive actors. It is clear that nonprofit actors must reconcile flows of materials and information that have potentially different operating logics in the search for efficient performance (Stank *et al.*, 2001), and in this sense the transfer of know-how is central (Table 1).

Ultimately, the performance of these tasks enables us to understand how social enterprises can respond to the needs of the market and for-profit actors while performing their typical tasks to protect social identity. We are witnessing a combination of new and traditional functions; this is a key challenge that, if not properly managed, can undermine the very nature of a company. In the cases we have analyzed, this is the key for being able to propose a product that is characterized by a social dimension in a mass market.

## 6. Conclusion

Our study outlines how the supply of sustainable products for the mass market is essentially linked to the skills necessary for the social enterprise in its supply chain management. Where this occurs, the potential for organizational growth in the nonprofit is evident. In particular, this indicates how to configure and manage supply chains of ethical products proposed by nonprofit organizations that take on an entrepreneurial nature and structure related to social enterprises. In our interpretation, a social enterprise must reconcile its actions as being in line with its identity and the social mission, as well as with demand in the consumer market. The supply chain and its management are a necessary condition for the company to be able to effectively operate in the for-profit world while maintaining its identity. This article makes the original contribution of highlighting the “shock absorber” function that a social enterprise must have. Figure 2 below exhibits our reasoning. A social enterprise is at the center of the for-profit and nonprofit worlds, which have different mechanisms, at least for the quality standards needed to operate, the pace and type of proposed innovation, the required knowledge and skills, and the dynamics of logistics and information flows. A social enterprise must manage these potential disparities to balance contrasting aspects and succeed in achieving the social objectives that it proposes while also grow economically. In the absence of this “shock absorber” function, the opening of a social enterprise to for-profit worlds can out at risk its survival.

Fig. 2: Management of for-profit and nonprofit aspects of a social enterprise supply chain



Source: authors' elaboration

The limits of this study deserve a final reflection, and these are also indications for future research. First, only two companies were investigated. Although, as already pointed out, these two are organizations of primary national importance, future research should extend empirical investigation to other cases of social enterprises. Second, our research has considered social enterprises exclusively. Future research should develop the dynamics of supply chain management in for-profit companies that enter into a relationship with a social enterprise. Study of the implications for the for-profit actor in managing its supply chain that emerges from the relationship with a social enterprise would be of interest.

In conclusion, our article highlights the need to study supply chain management with due consideration of the perspective of a nonprofit actor as a focal actor, offering sustainable products in the mass market. With this in mind, our article highlights a gap in the literature and provides the first elements of a response that would address this by rethinking the tasks, roles, and functions that must be fulfilled and that can have an impact on actors in production and distribution networks.

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