

# Integrating the Sustainable Development Goals into a Region's Smart Specialisation Strategy through Corporate Responsibility

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## Abstract

The United Nations' 2030 Agenda for Sustainable Development and the accompanying 17 Sustainable Development Goals (SDGs) have been widely adopted in EU policies, such as the European Green Deal, and Member States, highlight the need for responsible and sustainable investments by the business sector. The present paper argues that in the EU framework where development policies are sufficiently decentralised at the level of Regions, the materialization of "shared value" from business towards the achievement of SDGs can be accomplished via close cooperation between regional governance authorities and the business sector itself, in the spirit of SDG 17 ("Strengthen the means of implementation and revitalize the global partnership for sustainable development"). In this framework, EU Regions shall support the identification of regional industries and/or market segments that guarantee innovation potentials and regional comparative advantages. This entrepreneurial discovery process, in the context of Regional Smart Specialisation Strategies, shall be followed by private investments, exploiting the relevant business opportunities and creating "shared value" towards the achievement of SDGs.

*Keywords: Sustainable Development Goals, Smart Specialisation Strategy, Corporate Social Responsibility, Shared Value*

## 1. Introduction: The emergence of sustainable development

The notion of development is continuously widening. Beginning from economic growth, it incorporated human development issues, such as health and education, and welfare issues, such as poverty and justice. During 1960s', environmental issues were incorporated in the notion of development (United Nations, 2002; Thomas, 2004), reinforcing discussions about the interdependence between development, global governance, policy and entrepreneurship.

During 1960s' and 1970s', the skepticism about development processes underlined the significance of environmental sustainability on the limits to growth (Hardin, 1968). The future generations' capability in development became an ethical and political right, influencing the political discourse about environmental sustainability and social welfare. These discourses concluded in the United Nations Stockholm Declaration (United Nations, 1972), a significant political step for environmental protection and sustainable development.

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More recently, the Brundtland Report, entitled “Our Common Future”, defined sustainable development: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987). In this context, sustainable development is based on three pillars: Environment, economy and society. The environmental pillar refers to the preservation of natural ecosystems; the economic one refers to the creation of economic systems that guarantee social justice without obstructing free market framework; the social pillar refers to the creation of a framework that promotes well-being via the preservation of social cohesion (Ekins, 2000).

The concept of sustainability derived from the Brundtland Report motivated an effective discussion about the contents of development in a globalised society (Rennen and Martens, 2002). This happened as a response to the approaches of development that had been market oriented with focus to quantitative economic dimensions and results. The “weak” sustainable development approach combines neoclassical economics’ principles with environmental sustainability (Baker et al., 2005; Castro, 2004). The “strong” sustainable development approach sets environment in the core of development and puts emphasis on regulation and public policies as means to induce compatibility conventional and sustainable development (Castro, 2004).

Addressing current developmental challenges from a sustainability point of view, the United Nations initiative “Transforming our World: The 2030 Agenda for Sustainable Development”, analysed in 17 SDGs (United Nations, 2015b), constitutes the post-2015 global development agenda and has found strong support by EU and its Member States. Interestingly, the adoption of the 17 SDGs within EU policies recognises the responsibility of the business sector and highlights the multiplying developmental synergies of government-business partnerships towards sustainability.

In this context, it is evident that the SDGs’ achievement by 2030 implies significant opportunities for responsible business (AlphaBeta, 2017; Business and Sustainable Development Commission, 2017), in the context of “shared value”, i.e., creating business profits and financial value as well as public social/environmental value (Porter and Kramer, 2011).

The core argument of the present paper is the following: In the EU framework where development policies are sufficiently decentralised at the level of Regions, the materialization of “shared value” towards the achievement of SDGs can be accomplished via close cooperation between regional governance authorities and the business sector, in the spirit of SDG 17 (“Strengthen the means of implementation and revitalize the global partnership for sustainable development”).

In the context of Regional Smart Specialisation Strategies, EU Regions shall initiate multi-stakeholder public (local governance, public enterprises, academic institutions, research institutes) - private (business, financial institutions, banks, NGO, citizens) partnerships, setting-up a policy roadmap towards identifying the regional industries and/or market segments that guarantee innovation potentials and regional comparative advantages. Within such partnerships, this entrepreneurial discovery process shall be followed by private investments, exploiting the relevant business opportunities and creating “shared value” towards the achievement of SDGs.

In the spirit of this approach, the European Green Deal (European Commission, 2019) is an excellent example of applied policy combining sustainable regional development through Smart Specialisation Strategies and business responsibility.

## **2. Contemporary developmental challenges under the prism of sustainability**

During the last 50 years, the world has enjoyed significant economic growth. The global population has grown up to 7 billions and the global GDP has been increased six times already. Between 1988 and 2008, the poorest 1/3 part of the planet's population had an increase of 40-70% into their incomes, while the middle 1/3 part had a respective increase of 80% (Milanovic, 2012). Between 1990 and 2015, the number of people living in extreme poverty as well as the number of children dying before the age of five declined by more than 50% (United Nations, 2015a).

However, the aforementioned economic growth did not relief the major socioeconomic and environmental risks of the current development paradigm threatening environmental and societal sustainability.

From an environmental sustainability perspective, human actions have already pushed the planet's natural capital beyond its limits, resulting to climate change, biodiversity alterations, soil change and damages in the planet's biogeochemical cycles (Will et al., 2015). The World Bank estimates that 100 million of people might be at the risk of poverty by 2030, because of the failure to deal with the negative externalities of climate change (World Bank, 2016).

From a social sustainability perspective, there are large populations of people who do not have access to basic goods and welfare services such as healthcare, energy, clean water and sanitation. In the absence of proper initiatives, the prospects are significantly reduced for those not having the necessary skills (approximately more than 250 million people) (UNESCO, 2014). Moreover, income inequality in the Organisation for Economic Cooperation and Development (OECD) countries is the highest during the last 30 years (OECD, 2014).

From an economic perspective, the above burdens create significant constraints regarding future growth prospects. For instance, damages in biodiversity and ecosystems could reach up to 18% of world economic output by 2050 (Will et al., 2015). The cost of climate change can be even greater for fragile environmental and social systems, because climate operates as a risks' multiplier in the current development paradigm. For example, in European Union (EU), 43 million people cannot enjoy a high-quality meal because of the cost, while 20% of food production is wasted and more than half of EU's adult population is overweight. Such inequalities jeopardise the economic growth and social cohesion in the EU (OECD, 2015).

In this context, contemporary developmental challenges need to be addressed from a sustainability point of view, precisely in order to avoid putting natural environment, societies and economies under further risks.

EU is a consistently dynamic player in the international sustainable development discussion through its, as well as its Member States', support to relevant initiatives, such as the UN Framework Convention on Climate Change (The Earth Summit, Rio de Janeiro,

1992), the Kyoto Protocol (1997) and the Paris Agreement (2015). Environmental sustainability, the European Social Model as well as economic competitiveness are challenging topics where EU and its Member States recognise the need for business responsibility through Corporate Social Responsibility (CSR). In the EU context, “Through CSR, enterprises of all sizes, in cooperation with their stakeholders, can help to reconcile economic, social and environmental ambitions. As such, CSR has become an increasingly important concept both globally and within the EU, and is part of the debate about globalisation, competitiveness and sustainability. In Europe, the promotion of CSR reflects the need to defend common values and increase the sense of solidarity and cohesion.” (European Commission, 2006).

### 3. The Sustainable Development Goals

Contemporary global and local threats and risks suggest the need to enrich sustainable development within a common framework so as to motivate public and private initiatives upon common reference points. In this context, the United Nations initiative “Transforming our World: The 2030 Agenda for Sustainable Development” was adopted by the General Assembly of United Nations on September 25, 2015 as “a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030” and is based on 17 SDGs by 2030 (United Nations, 2015b). These 17 SDGs are specified in 169 sub-goals, which were mainly designed under a bottom-up approach in order to set the fundamental prerequisites against poverty, environmental sustainability and social welfare. In sum, the SDGs are the following: SDG-1: No Poverty; SDG-2: Zero Hunger; SDG-3: Good Health and Well-being; SDG-4: Quality Education; SDG-5: Gender Equality; SDG-6: Clean Water and Sanitation; SDG-7: Affordable and Clean Energy; SDG-8: Decent Work and Economic Growth; SDG-9: Industry, Innovation, and Infrastructure; SDG-10: Reducing Inequality; SDG-11: Sustainable Cities and Communities; SDG-12: Responsible Consumption and Production; SDG-13: Climate Action; SDG-14: Life Below Water; SDG-15: Life On Land; SDG-16: Peace, Justice, and Strong Institutions; SDG-17: Partnerships for the Goals.

Given that the SDGs constitute a common policy objective by 2030, two key vehicles for achieving them are regional governance authorities (United Nations Sustainable Development Solution Network, 2016), and the business sector (OECD, 2018a). More specifically, regional governance and business can operate in a cooperative framework, in the spirit of SDG 17 (“Strengthen the means of implementation and revitalise the global partnership for sustainable development”), which “recognizes multi-stakeholder partnerships as important vehicles for mobilizing and sharing knowledge, expertise, technologies and financial resources to support the achievement of the sustainable development goals in all countries, particularly developing countries.” (Stibbe et al., 2020). Within the EU framework, such multi-stakeholder partnerships between regional governance and the business sector have complementary developmental opportunities:

Firstly, regional governance shall initiate the identification of industries and market segments (Boschma et al., 2013) fulfilling the following conditions: Local business

has comparative advantages and investment opportunities in the relative markets; There are product and processes innovation potentials so as to exploit the aforementioned investment opportunities; These business opportunities are linked with specific SDGs, revealing the positive environmental and/or societal impact through the materialisation of the aforementioned investment opportunities.

Secondly, business can invest resources in order to exploit the aforementioned opportunities so as to create “shared value” (Porter and Kramer, 2011). This approach seems to be a critical prerequisite for achieving environmentally, socially and economically sustainable development.

## **4. Contemporary approaches to regional development**

### **4.1 Linking the Sustainable Development Goals with regional development**

Regional governance can play a significant role in the achievement of SDGs, despite that the United Nations Agenda 2030 was designed primarily for countries and not for regions or cities. Regions’ crucial role in the implementation of the Agenda 2030 is grounded on, firstly, their bottom-up characteristics in policy-making adapted to local conditions, and secondly, because they are closer to the implementation phase, where actions refer to measurable results under a more transparent, flexible and inclusive process. Restricting our attention to the OECD countries, almost 60% of total public investments in 2016 were materialised by regional governance (OECD, 2018b). In this framework, United Nations further estimate that 65% of the 169 SDGs’ sub-goals will not be achieved without the commitment and contribution of regional governance and municipalities (United Nations Sustainable Development Solution Network, 2016).

The Network of Regional Governments for Sustainable Development (2018) suggests certain necessary steps, at the level of regional governance, for the implementation of SDGs:

- Support integrated planning and strategy at local governance levels.
- Promote a coordinated dialogue with stakeholders.
- Collaborate with relevant institutions at different levels to disseminate best practices.
- Undertake initiatives towards multi-stakeholder partnerships.

### **4.2 Linking Smart Specialisation Strategy with sustainable regional development**

Since the late 1980s’, EU Regions have emerged with key roles in the promotion and implementation of sustainable development investments and capital creation (Amin and Thrift, 1994; Mckinnon et al., 2002). In this context, there is a need to reinforce the EU Regions’ capacity building to foster innovation aimed at the emergence of competitive advantages towards sustainable development (Morgan, 1997; Storper, 1997).

Innovation is an established pillar for regional development policy realms, interrelating technology stakeholders, private sector and regional institutions (Mazzonis,

1989; Morgan, 1997). At the level of regional governance in the EU, innovation has been in the core for the rise of regional competitive advantages and the creation of Research and Innovation Strategies for Smart Specialisation (RIS3), towards robust social welfare (Storper, 1997; Henry and Pinch, 2000; European Commission, 2010; OECD 2013). What is practically proposed through the concept of Smart Specialisation Strategy is the economic transformation of EU Regions through strategic linkages of economic objectives with social and environmental pillars, in order to apply the three pillars of sustainability (Foray, et al., 2011) at the level of EU Regions.

In the context of Smart Specialisation Strategies, the key challenge for Regions is to set-up a policy roadmap in order to identify the industries and/or market segments that guarantee innovation potentials and regional comparative advantages (Boschma et al., 2013). In particular, the Smart Specialisation Strategies “European Commission, 2012) can be vehicles towards sustainable transformations through “(a) modernisation of traditional industries towards higher added-values activities and niche markets, (b) modernisation of businesses by adopting and disseminating new technologies, (c) technological differentiation through existing specialisations in products and services; (d) development of new economic activities through radical technological innovations, and (e) exploiting new forms of innovation, such as open innovation, user innovation, social innovation, service innovation, etc.”

In the applied policy framework, the European Social Fund (ESF), during the programming period 2014–2020, initiated the conduction of Smart Specialisation Strategies as well as their association, in terms of funding, with the Regions’ Operational Programmes. The continuation of the Smart Specialisation Strategies in the new programming period 2021–2027 has great potentials for creating “shared value”. More specifically, the forthcoming ESF is based on five priorities (Europe closer to citizens, Smarter, Greener, Connected and Social Europe) that are fully compatible with the SDGs. Moreover, the proposed Strategic Innovation Agenda for 2021–2027 underlines the potentials for Smart Specialisation Strategies in order to increase the regional impact of Knowledge and Innovation Communities. In this context, EU Regional governments linking their Smart Specialisation Strategy with SDGs via their Innovation Agenda, will gain much.

## **5. Integrating the Sustainable Development Goals in the Smart Specialisation Strategy of a Region through corporate responsibility**

The private sector’s responsibility towards sustainable development has been pictured since the Brundtland report (see Chapter 3: “Ensuring Responsibility in Transnational Investment” in the Brundtland Report) with emphasis on the role of transnational enterprises in global economic development and their impact on sustainable development. A prerequisite was the state responsiveness to sustainable development and the policy measures towards it, in order the business sector’s engagement to be viable.

In the current framework, the SDGs’ achievement by 2030 is a vision with significant opportunities for responsible business, in the context of “shared value”.

According to recent data, the 60 fastest growing business opportunities related to SDGs are mainly identified in four key development sectors (food and agriculture, cities, energy and materials, health and prosperity). It is estimated that these four sectors can create approximately 12 trillion US \$ value per year for private sector until 2030 (AlphaBeta, 2017). This amount of money reaches almost 10% of the world's GDP by 2030. These business opportunities can also create almost 380 million jobs or absorb more than 10% of future labor force by 2030 (Business and Sustainable Development Commission, 2017).

Further evidence indicates that higher business sustainability performance is associated with higher financial performance, as well as that environmental, social, and good governance standards reduce the cost of businesses' operations and increase stock price performance (Cheng et al., 2014; Eccles et al., 2014). More specifically, the mechanisms of value creation through this sustainable development business approach are related with the upgraded capacity of the business sector in: Risk assessment and management, operational efficiency and resource savings, attraction and building effective supply chain relationships, recruiting - developing - sustaining talented employees, addressing problems through deliberation with stakeholders, access to capital, optimisation of reputation, and a strong "social license" to operate (Evans et al., 2017).

The above evidence suggest that EU Regions shall initiate multi-stakeholder public (local governance, public enterprises, academic institutions, research institutes) - private (business, financial institutions, banks, NGO, citizens) partnerships, so as to support business towards the exploitation of investment opportunities identified in the interface between SDGs and the Region's Smart Specialisation Strategy.

Initiating such multi-stakeholder public-private partnerships in the interface between SDGs and each Region's Smart Specialisation Strategy, seems to be a critical prerequisite for achieving environmentally, socially and economically sustainable development and suggests a political corporate responsibility approach, identified in the neo-institutional context. This context explains the development of hybrid policy instruments and roles via multi-stakeholder public-private partnerships, in order to tackle contemporary risks and develop sustainable development policies at a global scale. This happens because neither state nor business fails to respond to contemporary socioeconomic and environmental risks. In the neo-institutional context, Scherer and Palazzo (2011, p. 901) conceptualise political corporate responsibility as "an extended model of governance with business firms contributing to global regulation and providing public goods". More recently, Scherer (2017, p. 8) defines political corporate responsibility "as normative and descriptive scholarship, aimed at advancing responsible corporate engagement with collective issues and public goods that facilitates positive and impedes negative business contributions to society". These approaches constitute the evolution of "corporate citizenship" a term which is used to connect business activity to broader service for mutual benefit (Carroll, 1998).

A second observation refers to the role of business for achieving sustainable development. Recall that early approaches, in the era of the Brundtland Report, were focusing to transnational enterprises. Yet, within the current framework of policy initiatives, most studies suggest that as the vast majority of global businesses are small and medium-sized enterprises (SMEs), it is precisely this type of business that is critical to identify and exploit new markets and contribute with new solutions, new business models

and new technologies that can address the contemporary challenges faced by humanity, towards the realisation of the SDGs (OECD, 2017; Spence, 2007; Russo and Tencati 2009).

## 6. The case of the European Green Deal

The recently published European Green Deal (European Commission, 2019) is an excellent example of applied policy combining sustainable regional development through Smart Specialisation Strategies and business responsibility. More specifically, the Green Deal aims to:

- Transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.
- Protect, conserve and enhance the EU's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts.
- Become an integral part of EU's strategy to implement the United Nation's 2030 Agenda and the SDGs.

In the context of the Green Deal, the above objectives are expected to be materialised through the following pillars (European Commission, 2019):

- Increasing the EU's climate ambition for 2030 and 2050.
- Supplying clean, affordable and secure energy.
- Mobilising industry for a clean and circular economy.
- Building and renovating in an energy and resource efficient way.
- Accelerating the shift to sustainable and smart mobility.
- From 'Farm to Fork': designing a fair, healthy and environmentally-friendly food system.
- Preserving and restoring ecosystems and biodiversity.
- A zero pollution ambition for a toxic-free environment.

The above policy pillars constitute a set of "deeply transformative policies" and are expected to encourage changes in consumer and business behaviour as well as to facilitate an increase in sustainable public and private investments. Moreover, the transformation of the EU's economy and society towards a more sustainable path is grounded on the core roles of business and research & innovation, as well as on the spatial developmental role of EU Regions.

The Green Deal localises sustainable developmental processes at the level of EU Regions, recognizing that "Citizens, depending on their social and geographic circumstances, will be affected in different ways. Not all Member States, regions and cities start the transition from the same point or have the same capacity to respond." For this reason, "The Commission will work with the Member States and Regions to help them put in place territorial transition plans." Moreover, "The Just Transition Mechanism will

focus on the Regions and sectors that are most affected by the transition because they depend on fossil fuels or carbon-intensive processes.” (European Commission, 2019).

The transition towards climate neutrality and circular economy offers opportunities for new investments, products, services and jobs within a “shared value” context (Porter and Kramer, 2011), bringing together a wide range of stakeholders including EU Regional governments, Cities and citizens.

Regarding the progress and transition towards climate neutrality and circular economy across the EU Member States, the European Commission provides data via its Eco-innovation Observatory. Focusing to the transition towards climate neutrality, the Eco-innovation Observatory presents the Eco-Innovation Index.<sup>1</sup> This Index is based on sixteen indicators classified in five thematic areas: (1) Eco-innovation inputs (including financial and human capital investment in eco-innovative activities); (2) Eco-innovation activities (defining the extent to which companies in a given country are active in eco-innovation); (3) Eco-innovation outputs (measuring the output of eco-innovation activities concerning the number of patents, academic literature and media coverage); (4) Resource efficiency outcomes (pinpointing a country’s efficiency of resources and GHG emission intensity); (5) Socio-economic outcomes (aiming to measure the positive societal as well as economic outcomes of eco-innovation).

Interestingly, consistent data of the Eco-Innovation Index, during 2012-2021, suggests that progress and transition towards climate neutrality differs across EU Member States. More specifically, the 27 EU Member States are classified in three performance groups: (a) Eco-Innovation Leaders: Luxembourg, Finland, Austria, Denmark, Sweden, Germany, France, Spain and the Netherlands; (b) Average Eco-Innovation Performers: Italy, Portugal, Slovenia, Czech Republic, Ireland, Belgium, Greece, Estonia, and Latvia; (c) Catching-up with Eco-Innovation: Lithuania, Croatia, Slovakia, Cyprus, Romania, Hungary, Malta, Poland, and Bulgaria.

Turning our attention to the circular economy, the Eco-innovation Observatory classifies three groups of indicators so as to measure the relevant performance across the EU Member States:<sup>2</sup> (1) Sustainable resource management (measuring the performance of the EU Member States in transforming their economies toward circularity by lowering resource demands, thereby increasing resource security and lowering pressures on the environment); (2) Societal behaviour (reflecting citizen awareness, engagement and participation in the circular economy); (3) Business operations (depicting eco-innovation activities toward changing and adapting business models according to the principles of a circular economy). Regarding the EU Member States’ performance in circular economy, they are classified in the three groups identified in the aforementioned Eco-Innovation Index during 2012-2021.

The above evidence suggest that achieving the Green Deal’s objectives requires massive and country-targeted public investment, as well as the full “mobilisation of the

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<sup>1</sup> Source of data: European Commission, Eco-innovation Observatory, Eco-Innovation Index. [https://ec.europa.eu/environment/eoap/indicators/index\\_en](https://ec.europa.eu/environment/eoap/indicators/index_en), extracted on 25.02.2022

<sup>2</sup> Source of data: European Commission, Eco-innovation Observatory, Circular Economy Indicators. [https://ec.europa.eu/environment/eoap/indicators/circular-economy-indicators\\_en](https://ec.europa.eu/environment/eoap/indicators/circular-economy-indicators_en), extracted on 25.02.2022

private sector to direct private capital towards climate and environmental action” (European Bank for Reconstruction and Development, 2021). The Commission has estimated that achieving the current 2030 climate and energy targets will require €260 billion of additional annual investment, about 1.5% of 2018 GDP. Yet, the private sector needs support for the identification of credible investment opportunities in innovative value chains related to climate neutrality and circularity. This support can be offered at the level of EU Regions, in the context of the relevant Smart Specialisation Strategy.

In this context, the “market creation” policy tool, as well as its link with green and sustainable public procurement policies in EU Member States and Regions, is expected to be widely used towards the achievement of the Green Deal’s objectives. According to European Commission (2019, p. 21), “the EU’s trade policy facilitates trade and investment in green goods and services and promotes climate-friendly public procurement. Trade policy also needs to ensure undistorted, fair trade and investment in raw materials that the EU economy needs for the green transition”. Complementary to the above approach is the research & innovation ecosystem which is expected to provide new technologies and innovations, towards the exploitation of the aforementioned investment opportunities and the creation of regional “shared value”.

## 7. Conclusion

Despite the last 50 years’ significant economic growth, the major socioeconomic and environmental risks of the current development paradigm threaten stability and societies’ prosperity and need to be addressed from a sustainability point of view. In this spirit, the United Nations initiative “Transforming our World: The 2030 Agenda for Sustainable Development” was adopted by the General Assembly of United Nations on September 25, 2015 as “a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030” and is based on 17 SDGs by 2030 (United Nations, 2015b). The 2030 Agenda for Sustainable Development has been widely adopted by EU and its Member States with emphasis on the responsibility of the business sector.

This paper supported the view that in the EU framework where development policies are sufficiently decentralised at the level of Regions, the formation of partnerships between regional governance authorities and the business sector can contribute much towards the achievement of SDGs. Within such partnerships, EU Regions shall support the identification of regional industries and/or market segments that guarantee innovation potentials and regional comparative advantages. Then, business can exploit the relevant opportunities and create “shared value” towards the achievement of SDGs.

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