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THE LINK BETWEEN INNOVATION AND CSR. SHORT LOOK ON A BI-DIRECTIONAL SYSTEM OF INNOVATION-DRIVEN CSR AND CSR-DRIVEN INNOVATION

Summary. This paper refers to the link between innovation and CSR, which is a bi-directional system of innovation-driven CSR and CSR-driven innovation. The main assumption in this paper is that there can be a virtuous circle of innovation and CSR created, where, on one hand, the enterprises are driven by value, but on the other hand, they are driven by the search for values. In this paper the author shortly defines innovation and CSR, then shows two ways of dependence between innovation and CSR, and then finally, shows the idea of virtuous circle of innovation and CSR.

Keywords: innovation, corporate social responsibility, sustainable development, stakeholder theory.

ZWIĄZEK POMIĘDZY INNOWACJAMI A SPOŁECZNĄ ODPOWIEDZIALNOŚCIĄ BIZNESU. DWUKIERUNKOWY SYSTEM INNOWACJI NAPĘDZANYCH PRZEZ CSR ORAZ SPOŁECZNEJ ODPOWIEDZIALNOŚCI BIZNESU NAPĘDZANEJ INNOWACJAMI

Streszczenie. Artykuł poświęcony jest związkowi pomiędzy innowacjami a społeczną odpowiedzialnością biznesu, która przejawia się w dwukierunkowym systemie innowacji napędzanych przez CSR oraz społecznej odpowiedzialności biznesu napędzanej przez innowacje. Głównym założeniem artykułu jest to, że możliwy jest efekt spirali innowacji i CSR, gdzie z jednej strony przedsiębiorstwa będą napędzane przez wartości, z drugiej zaś przez poszukiwanie wartości. W artykule autor krótko definiuje innowację i CSR, następnie wskazuje zależności pomiędzy nimi, na końcu zaś prezentuje ideę efektu spirali innowacji i CSR.

Słowa kluczowe: innowacja, społeczna odpowiedzialność biznesu, zrównoważony rozwój, teoria interesariuszy.

1. Introduction

Nowadays there is a great pressure aimed at the companies to be innovative. Also there is a still increasing popularity of corporate social responsibility conception. Due to those trends both in business and economics as well as social sciences, it can be said that being innovative and responsible could be the recipe for being a successful organization these days. Considering that innovation is, as a matter of fact, the implementation of a new or significantly improved product or service and corporate social responsibility is a broadly used term, which refers to the continuous commitment of a business to behave ethically and to contribute to the economic development while improving the living standards of workforce and their families as well as community, there is a strong need to link these two concepts both in business practice and science.

There has already been a number of research conducted on real, running enterprises and theoretical works that show that CSR initiatives can lead to innovations through the use of social, environmental, or sustainability drivers to create new products and services. However, there is little information on the opposite situation – corporate social responsibility driven by innovation. There are some conjectures, arguing that the companies which do not take CSR into account, may not survive as they may fail to innovate¹.

In this paper, the author will try to describe the concepts of innovation and corporate social responsibility briefly, and then the link between innovation and CSR will be presented, firstly based on a CSR-driven model, then on the opposite direction. At the end, the reader will be able to find a proposition of a bi-directional system of innovation and CSR, based on the virtuous circle of CSR-driven innovations and innovation-driven CSR.

2. What is innovation?

The concept of innovation in the field of economics and social sciences is still comprehended in many different ways. It depends on comparatively short term of study on the concept of innovation and a lot of variant theoretical approaches. The etymology of the word innovation is the Latin *innovare*, what is translated as *creation of something new* or *renewal*.

It shows that there can be two ways of seeing innovation in general. The first one is more radical and one needs to interpret innovation as an introduction of brand new quality until a complete denial of certain realities. The second way is less radical and it can be interpreted as bringing new quality by renewal or reconstruction of already existing things. Those two

¹ MacGregor S.P, Spinach X., Fontrodona J. (ed.): Social innovation: Using design to generate business value through corporate social responsibility, IESE Business School, Barcelona 2007.

ways of understanding innovation are both present in modern approaches to the analysis of the phenomenon².

A person who introduced the concept of innovation to the modern economics and social sciences was Joseph A. Schumpeter. It was in the early XX century (1912). Schumpeter defined it very broadly and distinguished six planes:

1. introduction of new products or improvement of the existing ones,
2. the use of new or improvement of the existing production method,
3. opening of a new market,
4. introduction of new ways of selling and buying,
5. the use of new raw materials or semi-finished products,
6. introduction of a new organization of production.

An important thing about Schumpeter's conception is the fact that he understands innovation as very radical and fundamental changes. He claims that innovation can only happen once – it is one-timed and discontinuous. The dissemination of innovation is a separate process in his theory, which he called imitation. On the other hand, it is very important to differentiate innovation and invention, because a lot of inventions such as models or prototypes will never be disseminated and introduced to production or recognized as a conventional process, therefore they cannot be considered as innovations³.

The classical definition of innovation by Schumpeter seeks the sources of innovation in inventiveness and entrepreneurial of mankind. This view is very narrow. Another, already classical, management expert – Peter F. Drucker – identifies the potential sources of innovation in a broader way. He claims that the sources of innovation can be both inside and outside of the organization, such as: unexpected success or failure of the project; unexpected external event, such as war; mismatch between the assumed and the reality of the situation, the need to improve the weak parts in the production process; changes in the industry structure or market; demographic changes; changes in the social structure; and last but not least – new knowledge⁴.

However, for European researchers, scientists, and especially entrepreneurs – large ones and those of SMEs, the most important definition and understanding of innovation should be the one, which was presented in Oslo Manual⁵ for the first time. This definition is as follows: *An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations*⁶. Moreover, a minimum requirement

² Weryński P., Dolińska-Weryńska D., Tokar J.: Zarządzanie innowacjami w sektorze MŚP, Difin S.A., Warszawa 2014, p.13.

³ Schumpeter J.A.: Teoria rozwoju gospodarczego, PWN, Warszawa 1960.

⁴ Drucker P.F.: Innovation and Entrepreneurship, Butterworth-Heinemann, Oxford 2007.

⁵ OECD, Oslo Manual. The Measurement of Scientific and Technological Activities, Proposed Guidelines for Collecting and Interpreting Technological Innovation Data, OECD-Eurostat, Paris 1997.

⁶ OECD, Oslo Manual. Guidelines for collecting and interpreting innovation data. Third Edition, OECD/Eurostat, Paris 2005, p. 46.

for an innovation, included in this manual, is that the product, process, marketing method or organizational method must be new or at least significantly improved by the firm. Therefore, an innovation, according to this definition, could also be a product, process, marketing method or organizational methods that have been adopted from other firms or organizations⁷.

Nowadays, innovations are more often seen as the implementation of new ideas, which is economically successful⁸, on the ground of four dimensions of innovation: **1) Product innovation, 2) Process innovation, 3) Marketing innovation and 4) Organizational innovation**⁹. It is significant that in this paper, every time when innovation is mentioned, it will be understood according to these four dimensions.

3. Corporate social responsibility in theory

These days corporate social responsibility is a very popular conception, both in media and scientific discussions. However, sadly, it is mostly referred to philanthropy, which means that in social awareness it is seen as a way of supporting (mostly financially) people and organizations (especially non-profit organizations)¹⁰. That way of thinking is wrong, because CSR should be treated as a strategic area of organisation and it must be related to the core activity of the organization¹¹. Moreover, CSR is also associated with sustainable development and the conception of Triple Bottom Line (TBL), due to three dimensions mentioned in CSR – social dimension, economic dimension and environmental dimension. Therefore, a lot of authors are using the terms CSR and sustainable development interchangeably¹².

One of the most popular ways of defining CSR is strongly connected with the stakeholder theory¹³. In the view of stakeholder theory it is important to say that the primary reason for the existence of the organization is economic effectiveness, which is the main function imposed on it by the society. In economics and management sciences, the implementation of

⁷ Ibidem, p. 46.

⁸ Porter M.E.: *The Competitive Advantage of Nations*, The Macmillan Press Ltd, London 1990.

⁹ More about those four types of innovation you can find in OECD, *Oslo Manual. Guidelines*, op.cit., p. 47-52.

¹⁰ Pyszko A.: *Spółecznie odpowiedzialne innowacje – konieczność czy moda?* 2012, www.ptzp.org.pl/files/konferencje/kzz/artyk_pdf_2012/p011.pdf

¹¹ Porter M.E., Kramer M.R.: *Strategy and society: the link between competitive advantage and corporate social responsibility*, HBR, 2006, p. 78-92.

¹² Laszlo Ch.: *Firma Zrównoważonego Rozwoju*, Studio Emka, Warszawa 2008, p. 34.

¹³ The stakeholder theory is a theory of organizational management and business ethics in which there are strongly marked morals and values. It was originally developed by R. Edward Freeman in the book *Strategic Management: A Stakeholder Approach*. The traditional look of the organization was that only the owners and shareholders of the company were important. Stakeholder theory instead argues that there are other parties involved, including employees, customers, suppliers, financiers, communities, governmental bodies, political groups, trade associations, and trade unions. For more information about stakeholder theory you can look on: Freeman, Edward R., *Strategic Management: A stakeholder approach*. Pitman, Boston 1984; Miles S., *Stakeholders: essentially contested or just confused?* *Journal of Business Ethics* 108 (3), 2012, p. 285-298; Miles S., *Stakeholder Definitions: Profusion and Confusion*. EIASM 1st interdisciplinary conference on stakeholder, resources and value creation, IESE Business School, University of Navarra, Barcelona 2011.

this basic function is to generate value for the owners and shareholders. Therefore, the main indicators of its implementation are financial ratios. Apart from that however, according to the stakeholder theory, there are still other obligations of the organization. These are commitments that can be described as social. They are a major source of legitimacy of social economic organization. To summarize: the main idea of CSR theory is to generate the enterprise value concerning both the economic and social one. Consequently, there can be a definition of corporate social responsibility created based on the stakeholder theory, which is as follows:

Corporate social responsibility is an effective process of managing an enterprise that by responding to possible identification of stakeholder expectations the company contributes to the increase of its competitiveness, giving it stability and sustainable development, while shaping favorable conditions for economic and social development, creating both social and economic value¹⁴.

This definition of CSR is very broad and with a large degree of generality, but according to the author, it illustrates the full range of CSR activities and shows the core of the problem best, which means that the task of managers is to balance the interests of different groups, to produce economic value, social value and environmental value.

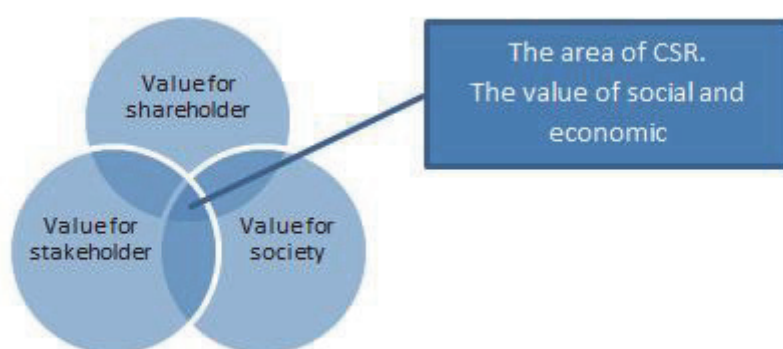


Fig. 1. The area of CSR, based on the stakeholder theory

Rys. 1. Obszar CSR na podstawie teorii interesariuszy

Source: Own elaboration based on: Paliwoda-Matiolańska A.: Odpowiedzialność społeczna w procesie zarządzania przedsiębiorstwem, C.H. Beck, Warszawa 2014, p. 77.

¹⁴ Paliwoda-Matiolańska A.: Odpowiedzialność społeczna w procesie zarządzania przedsiębiorstwem, C.H. Beck, Warszawa 2014, p. 78.

4. Bi-directional system of CSR-driven innovations and innovation-driven CSR

During the review of literature, one may find way more materials on CSR-driven innovation than on innovation-driven CSR. It may be said, that this kind of dependence between corporate social responsibility and innovation is popular and well-known. In fact, in Schumpeter's way of understanding innovation, managing by using the CSR tools can be an innovation itself. During the past decade, the notion of CSR as a part of organization value became very popular. Therefore, it was integrated with the innovation processes in the companies. Nowadays those two things are meant as the clue of successful corporation – being innovative and being responsible. It can be noticed, that there are, in general, four ways of seeing CSR-driven innovations. Those are: corporate social innovation, the bottom of the pyramid innovation, eco-innovation, and social entrepreneurship.

The idea of corporate social innovation (CSI) was introduced in 1999 by Rosabeth Moss Kanter¹⁵. The core concept of CRI was that the companies should use the identified social problems to learn about the unmet needs and try to bring the solutions for them, which can create new markets for those enterprises. In the same year, Coimbatore Krishnarao Prahalad and Stuart L. Hart discussed the idea of the base of the pyramid (BOP). This sub-theme of CSR-driven innovation is basically focused on low-income markets. The main idea of this conception is to focus on low-income populations and create a valuable market from them, what will bring benefits for those populations in a form of solving some of their urgent needs. The most interesting assumption in this theory is that the markets must pay a *poverty premium*, which means that the poor must pay more for some basic products and services than their middle or upper class compatriots. The assumption is that the companies, by using the BOP conception, may target their design better as well as improve distribution so as to bring down the *poverty premium*¹⁶. Though the BOP was originally addressed to a big corporation, recently some conceptions have arisen to bring this idea to both SMEs and NGOs¹⁷. Another big part of CSR-driven innovations are eco-innovations, which refers to innovation focused on the opportunities linked to the innovative products addressing the key environmental problems. It was demonstrated that innovative firms may succeed in driving the ecological innovation profitably, not by following the current customer demand but by creating a future market space¹⁸. The latter one, a well described type of understanding CSR-driven innovation

¹⁵ Kanter R.M.: From spare change to real change: The social sector as beta site for business innovation. Harvard Business Review, Harvard Business Publishing, Cambridge 1999.

¹⁶ Prahalad C.K., Hart S.L.: The fortune at the bottom of the pyramid, Strategy + Business issue 26, Booz Allen Hamilton Inc., 2002.

¹⁷ Kandachar P., Halme M.: Sustainability Challenges and Solutions at the Base of the Pyramid: Business, Technology and the Poor, Greenleaf Publishing, Sheffield 2008.

¹⁸ Fussler C., James P.: Driving Eco-Innovation: A Breakthrough Discipline for Innovation and Sustainability, Pitman Publishing, London 1996; Dyllick T., Hockerts K.: Beyond the business case for corporate sustainability, Business Strategy and the Environment 11, 2002.

is social entrepreneurship. It can be defined as the discovery and sustainable exploitation of opportunities to create public goods. It usually occurred through the generation of disequilibria on the market and non-market environments. Social entrepreneurship often leads to the creation of social enterprises. These social ventures could be described as hybrid organizations exhibiting the characteristics of both the for-profit and non-profit sectors. The opportunities of CSR-driven innovation can often originate from the social enterprises and firms, thus they can learn a lot from the NGO¹⁹.

To summarize: the best way to describe CSR-driven innovations is to look at their results. If innovation has a product or a service that have some sort of social purpose as its final result, it can be defined as CSR-driven innovation. This kind of innovations is driven by values for the creation of social products and services²⁰.

Opposed to that, there are few descriptions of innovation-driven CSR. In contrast to CSR-driven innovation, that type of connection of innovation and CSR is driven by value and is involved with creating social processes. The end results of that process could not be based on social justification only. It is more important that the way the output was developed in through employees, suppliers, shareholders and other stakeholders is more socially responsible²¹. It was said that *CSR-driven innovations is about doing the right things, while innovation-driven CSR is about doing the things right*²².

This sentence describes how the bi-directional system of innovation and CSR should work, because it is clear that one cannot be fully successful without another. In other words, the bidirectional model is defined as a model in which the innovation realized by the companies is a function of CSR and corporate social responsibility practices are a function of innovation. In theory they both should propel each other in an infinite circle. According to this approach, it is possible to change the previous citation and say that the virtuous circle of innovation-driven CSR and CSR-driven innovations is about ***how to do the right things in a right way.***

¹⁹ Hockerts K.: Sustainability Innovations, Ecological and Social Entrepreneurship and the Management of Antagonistic Assets. Difo-Druck: Bamberg 2003.

www.insead.edu/CMER/publications/wp/Hockerts_2003_Sustainability_Innovation.pdf

²⁰ MacGregor S.P., Fonrodona J.: Toward a sustainable innovation model for small enterprises, [in:] Louche C., Idowu S., Filho W. (ed.): Innovative CSR. From risk management to value creation. Greenleaf Publishing, Sheffield 2010, p. 316.

²¹ Ibidem, p. 316.

²² Ibidem, p. 316.

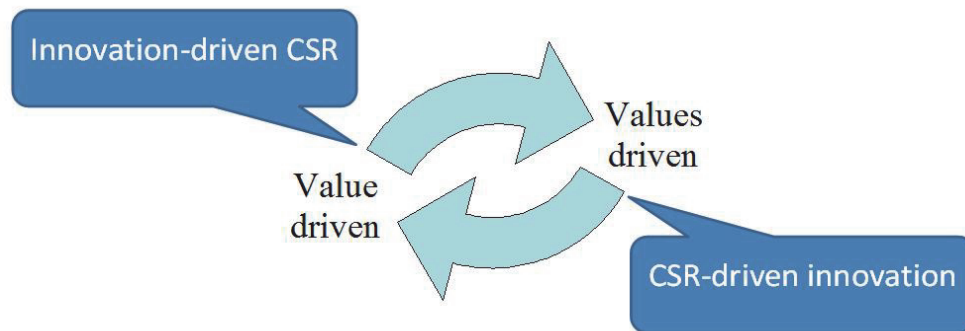


Fig. 2. The virtuous circle of innovation and CSR

Rys. 2. Krąg innowacji i CSR

Source: Own elaboration based on: MacGregor S.P., Fontrodona J.: Toward a sustainable innovation model for small enterprises, [in:] Louche C., Idowu S., Filho W. (ed.): Innovative CSR. From risk management to value creation. Greenleaf Publishing, Sheffield 2010, p. 316.

It is important to note that this bi-directional system must be seen as a process. Although there are different methods and tools available in that fields it is necessary to use a combination of these tools and methods to, on the one hand, search the value, and on the other hand, search the values. Another assumption is that the process must be incessant. Company cannot do it only once and then leave it, because being innovative and responsible is based on a constant usage of virtuous circle of innovation and CSR, which means the searching for value and searching for values must be on going all the time.

Steven P. MacGregor and Joan Fontrodona entered a grate model of how to manage the virtuous circle of innovation and CSR in an enterprise and they call it a Social Innovation model process²³. It consists of five stages: the first one is understanding the organization, the second – recognizing the current state, the third – defining the ideal state. On this state there is a necessity to compare the second and the third state and then make an attempt to identify the opportunities and risks. After that the time comes for taking some actions, but it is not the end of work. The most important thing about that model, according to the author, is the feedback loop, which means that after the stadium of taking actions, the company should learn about changes they make (innovations and CSR actions) and then start the process again.

These authors point out, however, that it is essential for the enterprises to realize and be aware all the time of using the model, what it was the motivation for starting to use the model. It is important, because of the fact that the model can be used both ways: from CSR to innovation and the other way round. The process must go through four dimensions. The CSR to innovation process starts from the search for values. It goes from a social sphere, to relationship, to organization sphere and at last to the process. The opposite process of innovation to CSR is driven by searching for the value and it goes backwards: from process to organization, to relationship and finally to a social sphere. Those two processes are the

²³ Ibidem, p. 317-319.

exemplification of using the theoretical virtuous circle of innovation-driven CSR and CSR-driven innovations in organization management.

5. Conclusion

To summarize this paper, the author wants to emphasize that innovation and corporate social responsibility have great meaning in the modern business models. In spite of a large number of very different definitions of innovation, this conception is popular and well described in professional literature. Also it can be said that the entrepreneurs possess some tools and instruments for measuring and introducing innovations in their organizations. A similar situation can be noticed in relation to the CSR-driven innovations, as a part of CSR and innovation linking. Unfortunately, it is not the same when it comes to innovation-driven CSR – this type of connection between those two concepts is still inadequately described, but certainly it could be a part of organization strategy. It is important to try to connect innovation and corporate social responsibility in both ways, to achieve business advantages.

One of the ideas how to do it, is to use a virtuous circle of CSR-driven innovations and innovation-driven CSR. The author believes that using this virtuous circle in the organization may lead to more sustainable and less risky way of enterprise management, which can be better for the society, environment and business itself. This belief is based on the fact that the application of the model will allow the companies to achieve the added value produced by the possibility of using feedback loop of these processes.

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Omówienie

Artykuł przedstawia zależność pomiędzy innowacjami a społeczną odpowiedzialnością biznesu w szczególności dwukierunkowy system innowacji napędzanych przez CSR oraz CSR napędzanej przez innowacje. Te dwa zagadnienia są rzadko przedstawiane w literaturze w ten sposób, niemniej jednak zachodzi między nimi istotna zależność. Celem tego artykułu jest wskazanie na to, w jaki sposób innowacje wpływają na CSR oraz jak CSR oddziałuje na innowacje. Autor zakłada, że możliwe jest stworzenie efektu spirali innowacji i CSR, w której z jednej strony przedsiębiorstwa będą inspirowane przez poszukiwanie wartości, z drugiej - będą kierowane wartościami. Autor ma nadzieję, że model takiego działania organizacji spowoduje wytworzenie zrównoważonego i mniej ryzykownego sposobu zarządzania przedsiębiorstwem, co przyniesie korzyści zarówno dla społeczeństwa i środowiska, jak i dla samego biznesu.