

Corporate Social Responsibility Towards Social Responsible Innovation: A Dynamic Capability Approach

Hossein Mahlouji¹ and Nahid kalbasi Anaraki²

The recent global economic downturn reveals the inefficiency of innovation theories to maintain steady state growth path. Yet, corporate social responsibility (CSR) theories have been criticized due to inability to enhance entrepreneur innovations. To address the shortcomings of the two theories, a new school of thoughts has emerged to introduce transmission mechanism channels for integration of CSR into social responsible innovation (SRI). Since dynamic capability approach (DCA) is seen as an instrument for enhancing competitive advantage as well as innovation in strategic management, we implement DCA to mainstream the transmission channels that affect SRI. We argue that CSR can affect SRI through different channels including; managerial creativity, dynamic sustainability, cost effectiveness, and reputational approach.

Field of Research: Corporate Social Responsibility, Social Innovation

1. Introduction

Corporate Social Responsibility is a widely used term in business literature, which can be interpreted as continuous commitment of a business to behave ethically and to contribute to economic development while improving the living standards of the workforce and their families as well as the community. MacGregor et al. (2007) argued that companies who do not take into account CSR, may not survive since they may fail to innovate. They conjectured that design may form the basis of constructing the link between innovation and CSR. In the same way, Little (2006) maintained that CSR initiatives can lead to innovations through the use of social, environmental, or sustainability drivers to create new products and services. In the meantime, Midttun (2006) conjectured that both CSR and innovation literature are split with respect to how the two agendas fit together. He argued that CSR poses restrictions on social responsibility vis-à-vis existing stakeholders that may limit their capability to undertake major structural transformation for implementing new technologies or business models. Despite the emergence of this new school of thoughts which tries integrate CSR to SRI, a few studies have paid attention to the transmission mechanism channels which CSR may affect SRI. We try to pave the way for extending the partial links between CSR and SRI using dynamic capability approach (DCA). The rest of the paper is organized as follows. Section 2 reviews the literature on CSR. Section 3 describes the evolving models of innovation. Section 4 portrays the relationship between CSR and SRI.

¹ Hossein Mahlouji, Managing Director at Kashanica Cultural Institute, email: kashanica@gmail.com

² Nahid Kalbasi Anaraki, Management and Economics Department, Science and Research Branch, Islamic Azad University, Tehran, email: nkalbasi4@yahoo.com

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Section 5 presents dynamic capability approach. Section 6 discusses new mechanism channels which CSR may affect SRI and finally section 7 raps up and concludes.

2. Literature Review

To uncover how CSR may affect SRI, we briefly review the literature on both theories. The literature on CSR has risen to prominence as a serious discipline in the management field, contributing to well being of employees, sustainability and competitive advantages.

Friedman (1970) conjectured that “there is one and only one social responsibility for a business, to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” He concluded that there is no role for CSR. However, Woodward et al. (2003) argued that CSR measures can help improve the cost structure of an enterprise, among other things.

Mintzberg (1983) claimed that CSR can appear in various forms. The purest form is when CSR is practiced for its own sake. Firms expect nothing back from their CSR activities and they become socially responsible because that is a novel strategy for corporations to behave. Moore (2003) argued that there is a tension between social and economic endeavors and by becoming socially responsible, firms are actually working to ease this tension. He concluded that if CSR is properly applied in business practices, then it must not be at the service of greater profitability.

In accordance with Moore, Goyder (2003) articulated his concern that many firms are taking CSR as mere compliance with expectations. According to Goyder, “*compliance CSR*” will make firms tell stakeholders what they want to hear, so that firms are seen as fitting into society’s template. This is opposite to real CSR or what Goyder calls “*conviction CSR*”, in which firms truly believe in a set of purposes and values that have convictions to act on them.

David Waldman et al. (2006) define CSR as actions on the part of the firm that appear to advance, or acquiesce in the promotion of some social good, beyond the immediate interests of the firm and its shareholders, which is required by law. Such actions may result in a company embodying socially responsible attributes in their products.

However, there is a great deal of ambiguity and uncertainty about what CSR really means as well as what drives a business to pursue it. Whatever are the motivations behind CSR theories, it is also interpreted as the concept of triple bottom-line (“*People, Planet, Profit*”) which captures an expanded spectrum of values and criteria for measuring organizational success; economic, environmental and social. Whereas business ethics and corporate governance combine to generate the means to achieve organizational excellence, the real test is when this excellence is converted into business sustainability and here, CSR plays a major role.

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The triple bottom line phrase was first coined by John Elkington in 1994 and later expanded and articulated in his 1998 book "*Cannibals with Forks: the triple bottom-line of 21st century business*". The concept demands that a company's responsibility be to "stakeholders" rather than "shareholders". In this case, "stakeholders" refers to anyone who is influenced, either directly or indirectly, by the firm's actions. Typical groups of stakeholders are owners, financiers, suppliers, customers, employees, unions, trade associations, competitors, government and political groups. According to the stakeholder theory, the business entity should be used as a vehicle for coordinating stakeholders' interests, instead of maximizing shareholders' profit.

In sum, CSR can be defined with three main features. First, it is the integration of social and environmental concerns within business operations and that means that CSR is beyond philanthropy. Second, the interaction with stakeholders rather than shareholders is a crucial aspect of CSR. Third, conviction CSR implies what enterprises can do in the social and environmental fields above what they are required to do by law. To see how CSR may affect SRI, we briefly review the innovation theories and then we try to highlight the interactions among the two. To do so, we use dynamic capability approach (DCA) which is later explained in section 5.

3. Evolving Models of Innovation

The innovation literature appears to include theoretical arguments that allow both pros and cons to CSR. On the one hand, a basis for complementary, synergetic relations between innovation and CSR can be constructed drawing on a broad strand of innovation theories that emphasizes on the social and institutional embeddedness of the innovative process. On the other, a basis for the antithetic relation between innovation and CSR can be constructed drawing on natural selection models of innovation and disruptive technologies (Midttun 2006).

Early models saw innovation as a linear sequence of functional activities. Either new opportunities arising out of research gave rise to applications, which eventually found their way to the market place (technology push), or the market signaled needs for something new which then provided new solutions to the problem (need pull). The limitations of such an approach are clear; in practice, innovation is a coupling and matching process and the interaction is a critical element. Sometimes the push will dominate, sometimes, the pull, but successful innovation requires the interaction between the two (Tidd 2006).

Roy Rothwell argues the nature of innovation process has evolved from simple linear models of 1960s to increasingly complex interactive models (Table 1). His fifth-generation innovation concept considers innovation as a multi-actor process, which requires high levels of integration at both intra-and inter-firm level.

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Table 1. Five generation models of innovation

Generation	Key Features
First and Second	The linear models-need pull and technology push
Third	Interaction between different elements and feedback loops (coupling model)
Fourth	The parallel line model, integration within the firm, upstream with key suppliers and downstream with customers
Fifth	System integration and extensive networking, flexible and customized response, continuous innovation

Source: Tidd, J. 2006, "A Review of Innovation Models", Science and Technology Policy Research Unit, University of Sussex.

Schumpeter saw innovation as a process of creative destruction. Certain steady state innovations are disrupted by occasional discontinuities, which can lead to technology. In the meantime, the seminal study of Christensen (1997) indicates that with each generation, almost all of the previously successful players failed to make the transition effectively and were often squeezed out of the market into bankruptcy.

Berkhout and Green (2003) dispose a system approach to innovation. They suggest potential ways to link innovation, sustainable research, and management. They also identify a number of limitations in the way that innovation is currently conceptualized; innovation is a distributed process across many actors, firms and other organizations, and is influenced by regulations, policy and social pressures.

Eric Von Hippel (1979, 1986, and 2001) has introduced the notion of user-driven innovation to describe the ability of users to initiate and develop extremely complex products. However, user driven innovation does not only benefit firms, but creates public goods as well as specific benefits for the involved users. While there is growing literature on user driven innovation theory, there exists very little research on how innovation can be driven by other stakeholders besides users and consumers. Empirical evidence for stakeholder driven innovation includes Stafford and Hartman (2001), Matsumoto (2002), Hartman & Liang (2003).

A basis for complementary and synergy between innovation theory and CSR can be found within several strands of innovation theories, including the system of innovation, both in its national, regional, and sectoral extensions, as well as the socio-technical political economy literature. While parts of the innovation literature lend itself to CSR, other parts appear antithetic to CSR. This includes several studies such as the Schumpeterian analysis of "creative destruction", the literature on disruptive technologies, and the comparative political economy literature.

In sum, despite evolving feature of innovation models, they have generally ignored to discuss the links with CSR, how they enhance CSR and how CSR will affect them. The current literature is unable to provide a clear snapshot on how firms can avert the discontinuity in innovations, and fulfill stakeholders' expectations. Many firms have failed to meet the end users' needs and markets' demands because of this inefficiency.

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To fulfill this task, a new school of thoughts has emerged in the literature to scrutinize how CSR may affect SRI.

4. Relationship between CSR and SRI

Due to partial overlapping features between CSR and innovation, a new theme in the literature has emerged to bring together CSR and innovation theories. The term "corporate social innovation" was first articulated by Rosabeth Moss Kanter (1999) who argued that firms should use social issues as a learning laboratory for identifying unmet needs and for developing solutions. Indeed, an important subtheme of corporate social innovation is the focus on low-income markets.

Prahalad and Hart (1999) talked about the potentials of the bottom or base of the pyramid (BOP). The BOP premise is that by focusing on the unmet needs of low-income population, firms can create profitable markets while also helping the poor address some of their most urgent needs. In addition, a number of studies have argued that CSR can be a route to SRI through the use of social, environmental, or sustainability drivers to create new products, services, processes and new market places (Little 2006).

Indeed, linking two business words, can itself be seen as an innovation as Schumpeter argued. Yet, this relationship, which has been emphasized in the Freeman's stakeholder approach, Fombrun's reputation approach, Porter's cluster approach, provides dynamic interpretation to the issue.

Among others, Gregor et al. (2007) maintained that companies that do not take into account the increasing importance of responsibility, may not survive in much the same way as those who fail to innovate. They emphasize the role of design as leverage for mainstreaming CSR. Existing design theory related to sustainability and responsibility may form the basis of constructing the links between innovation and CSR. They discuss the link between design and innovation, which links with concepts such as creativity and competitiveness. Creativity is shown as the root of business performance with design as an important delivery mechanism to transit creativity into innovation. A relatively new contribution to the design and responsibility literature is social responsible design (SRD). SRD is seen as a part of CSR, or some believe it is CSR in practice.

However, some commentators have criticized the CSR-SRI links, suggesting that some aspects of CSR could be incompatible with certain types of innovation. For example, Midttun (2007) argued that, in the case of disruptive innovation, firms have to change extremely rapid and as a result they may disappear in a competitive market. In such circumstances, it might be difficult to combine competitiveness and CSR objectives.

Though, four main transmission channels have already been emphasized in the literature linking CSR to SRI; innovation as engagement with other stakeholders, identifying business opportunities through competitiveness, creating work places that are more conducive to innovation, and design as leverage for innovation, these partial

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links confront difficulties in showing that innovation and CSR can be mutually supportive. To extend these partial links, we introduce a new model using dynamic capability approach (DCA) to see how CSR can affect SRI.

5. Methodology: Dynamic Capability Approach (DCA)

The global competitive battles in high technology industries have underpinned the need for an expanded paradigm to understand how competitive advantage is achieved and sustained. The fundamental paradigm in the strategic management is how firms achieve and sustain competitive advantage. Well known companies appeared to have followed the resource based strategy. However, this strategy is often not enough to support a significant competitive advantage. Firms resorting to resource based strategy attempt to accumulate valuable technology assets and employ an aggressive intellectual property stance. However, winners in the global markets have been firms exerting rapid and flexible product innovation coupled with management capability to effectively coordinate and redeploy internal and external competencies. The business field of strategic management has made significant contributions to dynamic capabilities approach, (e.g., Foss 1997, Heene & Sanchez 1997, Teece et. al 1997, Volberda & Elfring 2001).

Teece et al. (1997) define dynamic capability as ability to integrate, build and reconfigure internal and external competencies to address rapid changing environment. Indeed, the concept of dynamic capabilities arose from a key shortcoming of the resource-based view (RBV). The resource based view emphasizes firms specific capabilities and assets and the existence of isolating mechanism as the fundamental determinants of firm performance. This perspective recognizes but does not try to explain the nature of isolating mechanism that enables entrepreneurial rent and competitive advantage to be sustained. The resource base approach sees firms with superior systems being profitable not because they engage in investment but because they have markedly lower costs or offer higher quality. In contrast, Dynamic capability approach emphasizes two aspects. First, it refers to shifting character of environment. Second, it emphasizes the key strategic management in appropriately adapting, integrating and reconfiguring internal and external organizational skills, resources, and functional competencies toward changing environment. The dynamic capability approach provides a coherent framework to integrate existing conceptual and empirical knowledge.

This approach focuses on the firm's rent due to scarcity of resources rather than economic profits from market positioning. Indeed, competitive advantage rests on the upstream of product market and the firm's idiosyncratic to imitate resources. However, the capability approach places emphasis on an internal process that a firm utilizes as well as how it will be deployed and evolved. Indeed, DCA is seen as an emerging paradigm of the modern business firm that draws on multiple disciplines and advances. Based on DCA the competitive advantage is not just a function it is a game that should be deployed and redeployed in a changing market environment. We believe that DCA is promising as an aid to management endeavoring to gain competitive advantage as well as to innovation. Indeed, the word dynamic as Teece et al. (1997) argue refers to

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situations where there is rapid change to technology. Therefore, we use DCA to investigate how CSR may affect innovation models.

6. Development of a Social Responsible Innovation (SRI) Model

The theoretical and empirical research developed in the strategic management field suggests that there exists a partial relationship between CSR and SRI. As mentioned earlier, one of the transmission mechanism recently developed in the literature, is design as leverage for mainstreaming CSR.

An understanding of design and innovation and the link between two is therefore essential to help develop the CSR-SRI model. MacGregor et al. (2007) discuss the link between design and innovation to create this link. Bessant, Whyte and Neely (2005) link design to innovation by stating that design is the purposive application of creativity to all activities necessary to bring ideas into use either a product (service) or process. The detail work of Swann and Birke (2005) emphasize the link between design, creativity, innovation, and productivity. Creativity is shown as the root of business performance with design as an important delivery mechanism to transmit creativity into innovation, and productivity.

A relatively new contribution to the design and responsibility theory is Socially Responsible Design (SRD). SRD takes an integrative approach to several existing design initiatives. A key message is that understanding and implementation of design is necessary so that companies may include elements of CSR in the production process. The new model of SRD involves the following eight areas: government, economic policy, trade, ecology, social inclusion, health, education and crime, which can be positively addressed through the use of design.

However, SRD is neither the only unique transmission mechanism channel among CSR and SRI, nor the most important one. We believe that managerial creativity, dynamic sustainability, cost effectiveness, and reputational approach are among other channels which should be emphasized in the literature.

Indeed, managerial creativity is the most important channel that can address stakeholder's needs, entailing to social innovation and sustainable research, which, in turn, can affect SRI.

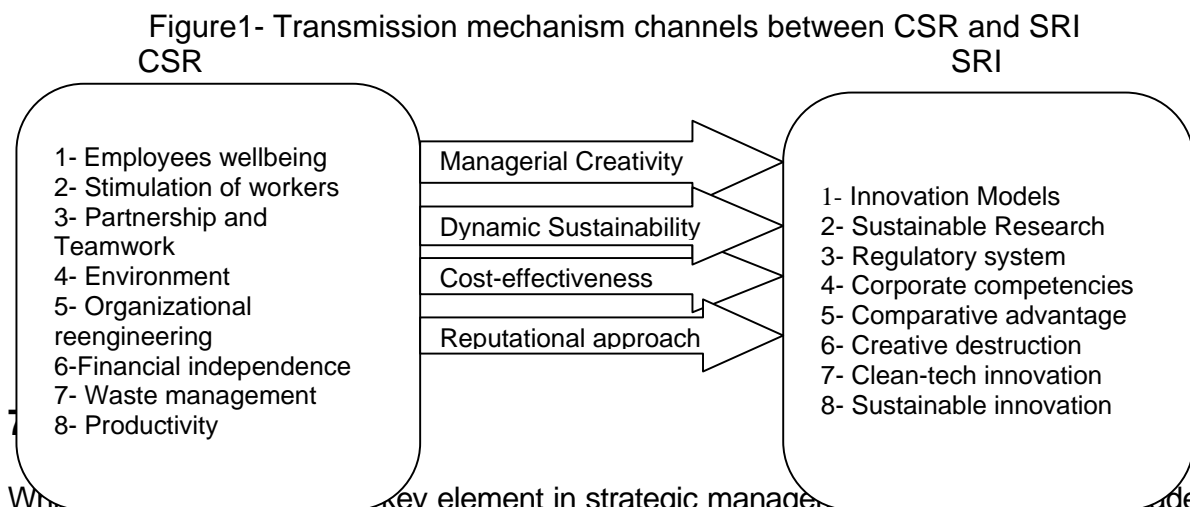
Dynamic sustainability acts as leverage for improving the regulatory system inside and outside the firm, enhancing corporate competencies. Indeed, compliance with legislation is a key driver and without adequate support programs, sustainability would be difficult to achieve. Dynamic sustainability can affect SRI through improving regulatory system by creating sustainable and predictable environment.

In addition, by focusing on cost-effectiveness, firms will be able to contribute to competitive advantage. Today, many companies view such CSR initiatives as representing opportunities for efficient management of their human resources. Recent trends suggest that

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more and more companies are adopting CSR approaches to help ensure efficiency, stimulate innovation, and create organizational excellence.

The last transmission mechanism proposed in our study is the reputational approach. Reputational assets are best viewed as an intangible asset that enables firms to achieve various goals in the market. What is critical about reputation is that it is a kind of summary statistics about the firm's position and its likely future behavior. By doing good, managers create reputational gains that improve a company's ability to attract resources, enhance its performance, and build on competitive advantage. Firms will be able to invent and achieve sustainable innovations when targeting reputational approach as a business strategy.



When it comes to key element in strategic management, CSR has received more attention in recent studies due to its relation with SRI. Indeed, CSR is a concept through which companies integrate social and environmental concerns in their business operations on a voluntary basis beyond what is required by law. Companies have evolved from profit-maximizing entities to provider of social goods, changing their management strategies from satisfying shareholders' interests to stakeholders' expectations.

The links between CSR and SRI have been based on four main transmission mechanism channels; (i) innovation resulting from engagement with other stakeholders, (ii) identifying business opportunities through competitiveness, (iii) creating work places that are more conducive to innovation, (iv) and finally design as leverage for innovation.

Using dynamic capability approach (DCA) we tried to identify more transmission mechanism channels which CSR may affect SRI. We argued that SRD is neither the unique transmission channel, nor the most important one. We argued that managerial creativity, dynamic sustainability, cost effectiveness, and reputational approach play important roles in shaping SRI.

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