Innovation induced by Corporate Responsibility practices: an exploratory study

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Abstract

In this paper we consider the innovation power of Corporate Responsibility. If some authors consider that environmental and/or social awareness can foster innovation in a company, other authors consider it as an additional constraint to innovative behaviors. We first make the point concerning the points of view defended in the literature. We then present which kinds of innovation Corporate Responsibility could favor in a firm, making the difference between incremental innovation, which is more related to continuous improvement and exploitation of acquired assets, as it is prescribed by quality management practices, and radical innovation, which requires creativity and exploration of totally new opportunities from the firm's viewpoint. To illustrate this, we examine several CSR or sustainability reports from large companies or consortiums, in order to detect innovative behaviors due to Corporate Responsibility practices. This is a preliminary study of a larger research project where we would like to enlighten this link between innovation and Corporate Responsibility in several industrial sectors.

Keywords: Corporate Responsibility, Innovation, Quality Management, Exploitation, Exploration, Reporting

Innovation induced by Corporate Responsibility practices: An exploratory study

Corporate (Social) Responsibility (CR)[1] is defined as a set of “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams & Siegel, 2001). This definition does not explicitly talk of innovation, while, in itself, such behavior is innovation, the primal goal of a firm being to make profit. The link between CR and innovation is controversial. If some authors claim that CR can foster innovation, others see in such practices an additional form of constraint that raises a barrier to the freedom and creativity needed in the innovation process.

This paper first makes the review of those opposite opinions concerning the innovative power of CR. For this, we consider both economic and managerial literatures, which propose alternative viewpoints to reach the same conflictual conclusions. From this literature review, we extract some elements for our future analysis of firms’ behaviors. We underline the various types of innovation that can be linked to CR and precise on what type our analysis focuses. In particular, we distinguish incremental and radical innovations. Then we give some success factors for CR-based innovative projects, as they have been proposed by several authors.

After these theoretical considerations, the paper proposes an exploratory analysis of innovative behaviors that we have detected in CSR or environmental reports of a few firms. This analysis is a first empirical approach of CR-based innovative practices. Our future research goal in this field is to enlarge this study to a larger sample of firms in order to put into evidence the differences due, for instance, to industrial sectors, technological backgrounds and size of the considered firms.

CR, between exploitation and exploration

As it has been shown by Senge (1994), firms are faced with a dilemma. They both have to manage their current assets (exploitation) and seek future assets (exploration). Those two strategic objectives require totally different capabilities. If the firm dedicates mainly its efforts to exploitation, it can be faced with a radical change in its environment (competitors, markets, etc.) and be unable to react appropriately because it would not be prepared. If the firm dedicates mainly its efforts to exploration, it will never obtain profit from its acquired assets because it will not evolve on the learning curve. All firms are thus faced with this dilemma of managing "at the edge of chaos" (Senge, 1994). In this section, we consider the impact of CR on those exploitative and explorative behaviors, analyzing the different viewpoints of the economic and managerial literatures.

CR, a more and more required constraint

For a lot of authors, CR is more and more imposed to organizations as an additional constraint. If it has been, in the past, an ideological or marketing behavior of some precursors, it has now become a norm from which especially large and established companies can hardly deviate. In its January 17th 2008 issue, the Economist dedicated a whole report to the growing importance of CSR initiatives. They qualified CR as a "mainstream" to follow rules that are "simply good business" (The Economist, 2008). In the papers from this report, CR initiatives are described mainly as defensive attitudes to manage reputational risks companies want to control. Being compliant with such good business practices can certainly improve products, services and processes. However it is not a way to foster innovation in its more radical conception. It has been demonstrated for long that strongly innovative projects find their roots in tacit, non-codified knowledge, which can hardly be copied by competitors and provide a competitive advantage to the firm. Procedures and best practices are, by essence, explicit and codified. They can not feed a breakthrough innovation (Tidd et al., 2001).

This position of The Economist is moderate in comparison with their 2005 opinion about CSR (The Economist, 2005), where they considered it as costly and offering no added value to the firm excepting a good reputation. Such a mitigated view of CR and the opportunities it offers is shared by a lot of CEOs of large companies who were recently surveyed (Huster & Hallen, 2007). They admit that they entered in a CR process because it has become unavoidable but doubt that it can create any value for their company (Huster & Hallen, 2007). It is also the opinion of classical and neo-classical economists who consider that social development is the responsibility of governments and not eh one of business (Friedman, 1970). The responsibility of companies is to create value and to contribute to economic growth. The value creation is typically the objective of innovation practices in firms, which are conducted in the own interest of the firm and not for the common good. Those economists contest Porter's hypothesis (Porter, 1991, Porter & van der Linde, 1995a and 1995b) that we will develop later on. Porter assumed that environmental regulation designed for the common good can increase competitiveness of firms and encourage innovation (Porter & Kramer, 2002). Its detractors claim that additional constraints brought by the (environmental or social) legislation reduce the innovation space. Moreover they contest the fact that such environmental (or social) efforts would be costless and bring value to the firm. They do not deny the necessity of those efforts from the society's viewpoint but doubt of their positive impact on the firms' competitiveness (Palmer et al., 1995).

From the point of view of those authors, CR is thus, at least for the most moderated among them, a necessity coming from the evolution of the society and its awareness of global issues, but certainly not a source of innovation.

CR, a source of competitive advantage

Other authors, joined by major institutions as the European Commission, claim that CR can foster innovation in firms. Porter (1991) was one of the leaders in the thinking stream. He claimed that responsibility constraints (in particular towards the environment) can lead to innovative actions that will create value for the firm. Some examples go in this direction. However it must be admitted that they are not so numerous. Nevertheless, progressively, a new kind of entrepreneur seems to emerge: the “social entrepreneur” (The Economist, 2008). Some emblematic persons, as Bill Gates, have been an example in this new kind of business. Those entrepreneurs practice a new kind of philanthropy, investing money in risky and long-term technological projects that could bring a social or an environmental progress. They participate in social ventures that are intrinsically business. Those entrepreneurs consider new environmental and social constraints as challenges enhancing the complexity o f the economic system and, subsequently, allowing the building of innovative solutions for growth. This is also the opinion of institutions as the European Commission (2001) which promotes CR initiatives, being confident this could bring new opportunities to the concerned firms.

An economic paper has recently joined this viewpoint, supporting Porter’s hypothesis under some conditions. Following Cerin (2006), in order to create value from their environmental or social initiatives, companies must bundle the social value they want to bring to society (for instance, avoiding environmental impact) with the creation of private economic value (for instance, adding value to a product). This author also underlines the necessity to strengthen public support to these initiatives (through property rights or public procurement) in order to help actors “to overcome uncertainties and conflicting aims” (Cerin, 2006). If public support is important, the need for bundling social and private values will be lower. This point of view from an economist meets the conclusions of management literature.

Husted and Allen (2007) suggest considering CR not as non-market activities but as “social-market activities that are designed and managed for profit”, strategically aligned with the company’s mission and objectives. They call for “strategic CSR”, which should open “a competitive space in which there are new opportunities but also additional demands to be met” (Husted and Allen, 2007). Mendinil et al. (2007) conclude from their study of CR-linked innovative practices in SMEs that “the link between CSR and innovation is more evident in organizations where CSR is an integral part of the business strategy”. They also notice that institutional support and incentives play an important role when companies decide to adopt CR-linked innovative practices. The Economist (2008) also underlined the necessary interaction between “a company’s principles and its commercial competences”.

Success factors of value creation through CR

The success stories of CR implementation that led to value creation show some commonalities. Following that, Burke and Logsdon (1996) have proposed the following criteria to ensure that “CSR pays off”:

- Centrality: a coherent focus of the project with the firm’s resources and assets. We find back here the strategic alignment that already appeared in our previous section.
- Proactivity: leading competition in acquiring strategic factors through the project. This does not differ from other innovation projects.
- Visibility: a reputation advantage must be built by informing customers of the firm’s behavior.

- Appropriability: ensuring that the created added value benefits to the firm by product or service differentiation. This needs a careful design of the project keeping in mind the valorization objective. This can also be related to strategic alignment.
- Voluntarism: Those social (or environmental) activities must be undertaken freely, because the firm wants to, rather than because of legal constraints or fiscal incentives.

Husted and Allen (2007) have checked the impact of 3 of those variables (visibility, appropriability and voluntarism) on value creation through CSR in large Spanish firms. Their study showed the positive impact of visibility and appropriability, but the impact of voluntarism was negative. This meets our own conclusions from a previous study (Thunis et al., 2007) and Cerin's conclusion (2006). Without constraints or incentives from institutions, firms generally consider such initiatives as too constraining. The survey of Husted and Allen (2007) led them to the following conclusion: value creation can occur from CR initiatives if

- The project is carefully designed to ensure value creation for the firm;
- The customers are informed of the realizations and then aware of the competitive advantage of the developed products/services. Without such visibility, the customer could not perceive this advantage or be influenced by competitors promoting other competitive advantages without any public value. This is what economists call the "white noise" (Cerin, 2006).

Generally, the CR initiatives of firms are considered as image or reputation oriented. So the last condition for success seems to be understood by those firms. The first condition is what we will investigate. Do firms carefully design their CR projects to obtain value creation? Do they ensure that those projects are strategically aligned with their resources and assets?

Exploratory study of CR-linked innovative behaviors

In this section we analyze several CSR or sustainability reports of three large firms in order to see which kind of innovative behaviors they publicize in those reports. We try to find if those innovative projects are aligned with the firm's mission and strategy. And we try to find signs of value creation from those projects.

Methodology

To perform this exploratory study, we have focused our attention on CSR or sustainability reports from two large companies and one consortium of companies. We have deliberately chosen totally different industrial sectors. Our future goal is to go deeper in the investigation of each of those sectors. Here are the organizations that were analyzed:

- IKEA, a well-known furniture distributor, having a strong involvement in the production part of its business;
- KPMG Canada, a well-known consultancy company, specialized in financial audits;
- Les Entreprises du Médicament (LEEM), a consortium of several pharmaceutical companies.

We have deliberately chosen to select French-speaking reports in order to guarantee the validity of our textual analysis. Having the same language in all reports also helped us to compare the used expressions and vocabulary.

Our methodology was based on a systematic analysis of the report contents by "manual" analysis. We intend to complete this analysis with a "software-based" one with the help of

Tropes. This will be done in future works. Our manual analysis first looked at the following elements:

- The mission of the organization as they define it in the report;
- The main focus of CR actions and the alignment with the mission;
- The innovative level of those actions, qualifying them from totally exploitative to totally explorative.

KPMG Canada

The analyzed report was the 2006 report of KPMG Canada, French-speaking version (KPMG, 2006). In this report, the mission of KPMG Canada is described as its “raison d’être”:

> “*We help companies to grow with confidence in the future. We create carrier opportunities being particularly satisfying. And we contribute to establish trust links between investors and companies, which is of vital importance in the current business climate.*”[2]

In the center of this mission statement, KPMG puts its people. They add:

> *“As a professional services organization, KPMG recognizes that its personnel are its most precious asset.”*[3]

In compliance with this mission statement, all actions described in the KPMG report are people-oriented or people-based. Clearly, the CR strategy is aligned with the resources and assets of the company: intellectual capital. The report describes the benevolent actions of members of the personnel, recognizing people involvement and communicating about it. It also presents the implementations of KPMG to make the company the best place to work: concierge services, sabbatical possibilities, groups of discussion for people facing issues in their personal lives (as parents of disabled children), etc. It also presents the results of a regular survey involving the personnel and through which they analyze the progress of the company concerning its social objectives. To give a last example, 28.3 % of KPMG philanthropic financing goes to education institutions, which is also aligned with its own need for future well-educated human resources.

As we have just shown, the CR actions of KPMG Canada are well aligned with its mission. However, these are not very innovative. We see them more as a way to continuously improve the business, in an exploitative way. Since the report is totally people-centered, it does only cover the social aspect of CR. The environmental part is not considered as relevant for the company. However we think that environmental considerations could offer to KPMG Canada a new space of innovation: use of remote connections for audits, for communication between subsidiaries, use of flexible storing technologies to share knowledge among people, etc. An example of this type appears in the report: the use of blogs to communicate with the personnel and to collect their opinions about the company.

IKEA

The report that was analyzed for this paper is the 2006 report concerning social and environmental responsibility of IKEA, French-speaking version (IKEA, 2006). The mission statement proposed by IKEA in this report is the following:

> *"…to offer a large range of furniture products being aesthetical and functional, at prices affordable for the biggest number of persons."*[4]

IKEA completes this mission statement with its strategy to reach it: mastering costs through the implementation of methods allowing rational use of resources and lowering of the impact on the environment (IKEA, 2006). The alignment between the company's mission and its CR actions is settled from the beginning of the report. Andreas Dahlvig, President and CEO of the IKEA group, reinforces this in its introductory letter: "I have always been convinced of the commercial legitimacy of an integrated approach in matter of social and environmental responsibility. Not only does it awaken a positive feeling in the minds of our customers and collaborators, but it revitalizes our activities. In numerous cases also, it proves to be profitable." (IKEA, 2006, p.7) In accordance with these assertions, the report focuses on social and environmental realizations concerning mainly supplies and suppliers. Beyond the good management practices on those two aspects, some innovative initiatives are also mentioned, showing that CR constraints were found by IKEA as an opportunity to introduce rather radical changes. The efficient use of materials seems to us a true innovation. Research for new materials with a better ecological balance led to, among others, the development of lyocell, a renewable cellulosic fiber extracted from eucalyptus and able to replace, in some cases, cotton or polyester. This new material is not only ecological (because of a very clean production process), it is also economically interesting since it gives very few production waste.

A lot of other initiatives presented in the report are simple good business practices: impact on the suppliers for better environmental and social management, systematic audits concerning those practices, KPI to track the evolution of those responsible behaviors at the suppliers' side, etc.

So IKEA uses CR both to improve the exploitation of its business and to explore new opportunities. Thanks to this proactive attitude, IKEA was included in the list of the "World's Most Ethical Companies" by Ethisphere Magazine in 2007.

LEEM (Les Entreprises du Médicament)

The report that was analyzed is a joint report from a consortium of 22 pharmaceutical firms operating in France: the LEEM (LEEM, 2007). The mission of LEEM is not explicitly mentioned in the report. This seems normal since LEEM is a consortium of companies, each of them having their own view of the pharmaceutical business. To have an idea of their view of their mission, we should look at their individual CR report, what will be done in our future work. The report is introduced by a letter from the President of the consortium, Christian Lajoux. This letter is very interesting because it presents a mitigated view of the current innovation environment in this industry: “So is the paradox of the pharmaceutical economy: to innovate more than ever in a context where conditions of innovation are counted!”[5] He continues: “This new relationship [with society’s counter-power] defines the conditions of therapeutic progress. It could slow down in the following years. Therapeutic innovation depends on its environment.”[6] He then calls for a collective reflection to find solutions preserving the creativity needed in such highly technological industries while taking into account the understandable preoccupations of society. This could lead to a win-win logics and a better balance between those two poles (LEEM, 2007). He sees in the development of CSR an instrument to help understanding between parties, through transparency and communication, and to find this necessary balance.

From this introduction, it seems clear that this sector lives a conflictual situation. The report is thus rather defensive. It presents the contributions of the sector in issues that often raise critics: medication for rare illnesses, access to health programs in developing countries, dialogue with NGOs and associations.

From the absence of a clear mission statement and from the defensive style of the report, the alignment between CR actions and organizational objectives is hardly found. Innovative behaviours are present, through the list of all new or extended medications. It does not seem that they are induced by a CR reflection. However they try to meet the objectives of the 2004 French Law on Public Health, which fixed some priorities.

Comparison between the three cases

This preliminary study has already demonstrated very different innovative behaviours. We could differentiate them as follows:

- The intermediary position, using CR as an extended quality management tool. This dimension is present in the three reports. However it is more obvious in the KPMG Canada report. The actions presented by KPMG Canada aim at supporting the intrinsic motivation of the human resources, at sharing a common culture and values. This is what is prescribed since the fifties by quality management gurus as Deming (1986).
- The defensive position, considering CR as an unavoidable barrier. This dimension is obvious in the LEEM report. The societal requirements are perceived as limiting the innovation space of the sector. We should however consider the individual reports of the LEEM members to see if this attitude appears also at their level, or if the LEEM report aimed at asking for a reflection, beyond the individual attitudes.
- The proactive position, considering CR as an innovation opportunity. This dimension was more present in the IKEA report, even if this report also mentions that a lot of efforts still have to be done and that they often felt a lack of support from institutions (IKEA, 2006). Nevertheless, CR is presented by IKEA as an opportunity for change and progress, with added value for the company.

In two of our three cases (KPMG Canada and IKEA), the CR actions were in very good alignment with the company's mission and strategy, bundling social and private values, as the literature prescribes.

Conclusion

In this paper, we have analyzed the positions of antagonistic authors concerning the potential impact of CR practices on the innovation capabilities of a firm. Recent conclusions show that CR practices can help firms to create competitive advantages and create value under some conditions. The main conditions were that the CR objectives should be aligned with the firm's resources and assets (strategic alignment), that the CR projects should be designed in order to create value for the firm and that the visibility of the created competitive advantages should be ensured. Following this study of the literature, we have proposed an exploratory study of CR-linked innovative behaviors in three big organizations. Our methodology was based on the analysis of their CSR or sustainability reports. From this very preliminary study, we have detected three different behaviors: the intermediate one (CR-linked incremental innovation), the defensive one (CR considered as a barrier to innovation) and the proactive one (CR-linked radical innovation).

Our future research should first add to this preliminary analysis a software-based textual analysis of the three studied report. This analysis is currently in progress and should be included in the next version of this paper. Once the exploratory research completed with this, we want to consider larger samples of companies in those three industrial sectors: distribution, service and high technology. This should allow us a deeper understanding of the presence/absence of CR-based innovative behaviors in firms following the industry they belong to, their technological background, their size, and their region.

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Footnotes

1 In the paper we use the acronym “CR” to refer to “Corporate Responsibility”. We sometimes use “CSR” to refer to “Corporate Social Responsibility” and to respect the acronym used by firms. We decided to use “CR” in general in order to enlarge responsibility of firms beyond the social aspect, as it includes more and more the environmental aspects also.

2 “Nous aidons les entreprises à se développer tout en ayant confiance dans l’avenir. Nous créons des possibilités de carrière particulièrement satisfaisantes. Et nous contribuons à établir des liens de confiance entre les investisseurs et les entreprises, ce qui revêt une importance vitale dans le climat actuel des affaires.” (KPMG, 2006)

3 “En tant qu’organisme de services professionnels, KPMG reconnaît que son personnel est son atout le plus précieux.” (KPMG, 2006)

4 “…offrir une vaste gamme de produits d’ameublement esthétiques et fonctionnels à des prix accessibles au plus grand nombre.” (IKEA, 2006)

5 “Tel est le paradoxe de l’économie du médicament : innover plus que jamais, dans un contexte où les conditions de l’innovation lui sont comptées !” (LEEM, 2007)

6 “Cette nouvelle relation [avec le contre-pouvoir de la société] définit les conditions du progrès thérapeutique. Il pourrait ralentir dans les prochaines années. L’innovation thérapeutique est dépendante de son environnement.” (LEEM, 2007)

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