CORPORATE SOCIAL INNOVATION: HOW TO CREATE VALUE BY DOING THE RIGHT THINGS?

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Abstract
The purpose of this article is to establish a new management idea that supports the integration of sustainable competitive advantage-creating rules and stakeholder relations. A top-down approach was used to develop proposal framework focused on analyzing the main theories including corporate social responsibility (CSR) and social innovations to identify new assumptions of value creation. The paper describes the novel conception of Corporate Social Innovations (CSI) linking innovations, social needs and organizational capabilities and resources to create and claim shared value (social and economic). The original conceptual framework extending the social innovation and CSR approaches by juxtaposing advantage-creating shared value taking into account the constraints of transaction costs associated in the process of exchange between the stakeholders.

Keywords: CSR, shared value, corporate social innovations (CSI), stakeholders, transaction costs

1. Introduction

This article is theoretical and is based on two main assumptions. One of the author’s intents is to show that the assumption about a lack of fit between the social and economic values in the companies activities is incorrect, because only the perception of the shared value offers the opportunity to develop innovative solutions in theory and practice. The second concerns the intention to introduce a new concept of Corporate Social Innovation (CSI) to fill the gap in the concept of Corporate Social Responsibility (CSR) for the creation of a shared value using social innovation.

The article poses the following issues:
• Why CSR is regarded as a cost-ineffective and worthless activity for the enterprise,

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• How organizations can create shared value (economic and social) implementing actions based on social innovations.

The thought behind these questions is the result of the author’s previous research (Pyszka 2011, pp.99-100) and the perceived changes in the company’s activities in the Polish and international market. There is also very important moment in the history, where we can observe the stakeholders increasing self-awareness leading to changes in the methods of competing. We can find many examples in support of this thesis especially looking at the business leaders who plan and implement the socially responsible activities of their companies as they are classified as being good citizens. These changes can be seen also in the standards and principles of business conduct by the introduction of socially responsible norms (ISO 26000) or even by belonging to the indexes of socially responsible companies on the stock exchange (for example – Respect Index) which govern both, internal and external behavior and inspire hope that a “responsible investment” will bring shareholders a fair return on investment. This rapidly advancing qualitative change is also visible in literature, where corporate social responsibility (CSR) previously seen as something unreal and illogical\(^2\) from the point of view of the corporation becomes a stimulus for the board of management to act in an innovative manner.

Friedman’s critical words can now find justification. When we look at cause related marketing, the formula can be confused with CSR activities, as is the cooperation of commercial and non-commercial entities aimed at implementing a specific social purpose at the same time in helping to strengthen its market position and image (Wikipedia). The problem of cause related marketing is not the goal, but is in the amounts that are spent on advertising compared to what has been given to achieve the objectives of society dedicated to the event.

On the other side, literature points to the need to look for measurability or even replacement of CSR with CSV (corporate shared value) that better reflects the end result of responsible activity (Porter, Kramer, 2006). According to Porter and Kramer (2011) the creation of CSV as an alternative to CSR is a move in the right direction as a guide for the company’s investment in the community. CSR is necessary in light of current programs solely based on reputation and limited connectivity to business and thus reducing the opportunity to assess the long-term effects. According to Porter and Kramer (2011) it is important to use resources and expertise in a unique way to create economic value by creating social value. It’s a whole new direction, which can provide a basis for socially responsible activities by increasing the level of efficiency and redirecting efforts in a more innovative and ethical way better suited to the problems and needs of society (Schumacher, Wasielewski 2013).

\(^{2}\) quoted statement from the 70’s, where Milton Friedman undermining the sense of implementing such actions by corporations indicating an economic responsibility as a primary goal for the organization
2. Corporate Social Responsibility, disappointed expectations or the chance for innovation?

Looking at the social responsibility of business we need to consider how it is perceived from the perspective of business ethics and related theories. An analysis of literature on business ethics shows the first explorers dilemmas on topics related to the perception of what an enterprise is, often referred as the corporation. The main problem of researchers is attribution of human features to the enterprise associated with a sense of morality that is usually assigned to individuals. According to Crane and Matten (2004, p.43) corporations in the eyes of the law should be seen as ‘artificial persons’ hypothetically attributed to shareholders, but operating independently of them, while managed by managers and directors that have fiduciary responsibility to protect the interests of the shareholders. Such assumptions fuel questions about the legal and moral responsibility of corporations as: only human beings are morally responsible for their actions, managers are only responsible for the action in the interests of shareholders, issues and social problems are specific to the local authorities rather than corporate managers. The contrary argument is crucial to understanding the debate on accountability because we can not deny that the a company is made up of the people involved, while each organization has an internal structure of decision-making and organizational culture that influences decision-makers and public relations.

Currently, the most widely used model of responsibility to the ‘stakeholder organizations’\(^3\) is a ‘pyramid of responsibility’\(^4\) and TBL (Triple Bottom Line), pointing to the need to combine three dimensions of the company: economic, environmental and social activities (Rok 2004, p. 70).

According to literature written on CSR, some fundamental dilemmas concern its superficiality (what the company says it does and what it does in reality differ greatly), lack of knowledge as they utilize CSR only for philanthropic activities, the lack of skillful choice in solving social issues, conflicts between business objectives and implemented CSR activities (Grayson 2010). Although CSR requires a deliberate course of action, many organizations do not think about the strategy of CSR especially when they do not even see the direction in which they want to go (they can not or do not want to set targets in this area). Yet these points are important for interpretation of CSR strategy, as well as the manner of its implementation, which can influence the thinking and behavior of participants in the process and the entire company. According to Hollender and Brenn (2010, p.8) the revolution connected with corporate social responsibility is changing its image of the organization from

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\(^3\) Entities (groups, individuals) influence and under the influence of the organization

\(^4\) Pyramid developed by Carroll i.e. economic responsibility (as a base), legal, ethical and philanthropic
the inside out through: the implementation of innovative models of work, the creation of a new logic of competition, finding other methods of leadership and redefining business objectives.

This approach is feasible, but only by a conscious and active involvement of stakeholders in co-operation. As indicated by Laszlo (2008, p.154-156) there has to be a redefining of the role of stakeholders and their relationships with the business (as a source of potential value for shareholders) and a shift from managing stakeholders to co-operating with them by encouraging good relationships in order to create new opportunities associated with long-term objectives. This requires building a win-win co-operation model in which the place of values is moving from the realm of contracts and transactions, in the direction of trust and cooperation.

An approach based on cooperation and trust and focusing on partnerships with stakeholders can lead to many successful innovations (both closed and open), where the shared value will yield a positive result for all participants in the process (see innovative business model based on CSR – Pyszka 2011, p. 106)

3. Social innovations – old problems and new solutions

A book edited by Nicholls and Murdock (2011) points out the importance of social innovation today. It is a ‘sixth wave’ of macroeconomic changes, whose impact is as strong and destructive as technological and economic changes in recent years. According to Nicholls and Murdock (2011, p.1), these changes do not occur only in existing systems, but lead to a self-reconfiguring of systems through the internal logic of institutional norms and traditions. In view of the negative criticism of other systems and undermining the ability to deliver social and environmental performance, there are processes based on the opposition and resistance, on the other hand cooption and cooperation, which are typically characterized by acts of institutional entrepreneurship and blurring the boundaries between structure and agency in a manner identical to the structuring models in sociology. In this way, social innovation contributes to the creation of new ideas and structures within socially reconstructed re-contextualization of public standards of goodness, justice and equality. Social innovations demonstrate the conditional structure of social change giving priority to social resources of knowledge and culture, which is a foreground for creative reconfiguration of social relations.

According Moulaert and company (2005) social innovation refers to the dynamics of social relations and social inclusion, where social innovation is conditioned by the context in which it is implemented and includes changes in agendas, agencies and institutions, leading to a better integration of excluded
groups. On the one hand it concerns characteristics such as creativity, innovation and art. On the other hand there are elements of management such as local development strategy, management science, politics, or relationships within economics, society and the environment. Moulaert and company (2005) in the overlapping dimensions point to: (1) satisfaction of human unmet needs or those who have lost their attractiveness to the market, (2) changes in social relations aimed at increasing the participation of disadvantaged groups, (3) positive reinforcement (empowerment) by increasing the rights of human needs and participation.

Nicholls and Murdock (2011, p.2-3) noted that the multidimensional nature of social innovation means that it can be seen in two ways; from the perspective of the country, as a search for welfare reform in increased efficiency and effectiveness in the area of financing excessive demand on social services and changes in the structures of government (eliminating the inefficient allocation of resources), and from the perspective of civil society, where the internal processes of organizational change (new legal forms and cooperation), with novelty on both external outputs and results (new products and services). In such a context the creation and implementation of social innovation means that from the perspective of imbalance accompanying social innovation, they are never neutral, but always politically and socially constructed as presented in Table 1.

**Table 1.** The levels of formation and diffusion of social innovation (SI)

<table>
<thead>
<tr>
<th>The level of social innovation</th>
<th>Characteristic</th>
<th>Example of use</th>
<th>The consequences for the environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental Products and services</td>
<td>Focused on market failures and gaps.</td>
<td>Kickstarter (the low cost irrigation pump)</td>
<td>The emergence and spread of the wave of social economy companies targeting the BoP market. IS considered as a good business opportunity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cooperation</td>
<td></td>
</tr>
<tr>
<td>Institutional Markets</td>
<td>It leads to the reconfiguration of market models and structures to create a new social value and social performance – driven by experts repositioning new technologies and intellectual capital to social ends.</td>
<td>M-PESA Safaricom (PPP Government of and Vodafone) – the use of mobile phones in Africa to pay for goods, money transfers, etc. ‘Fair Trade’, co-regulating the concerns of food producers in the third world. Cooption, institutional entrepreneurship</td>
<td>It is usually a response to problematic patterns of economic change in the sectors of society. It leads to commercial solutions.</td>
</tr>
</tbody>
</table>
Destructive System, cognitive dimension (way of thinking)

The aim of cognitive change references around the markets and structures. A change in system, the domain of social movements and political activists, groups, networks aimed at changing power relations. Changing the social hierarchy. It can be stimulated by state structures through entrepreneurial policies and ideologies of the revisionists.

Politics, social-movements (Greenpeace, BRAC micro-finance).

Resistance to the old order, breaking the status quo.

Characterized by the participation of political parties or formal membership in social movements, social media, etc..

Social Innovation as a systemic change can be sudden and immediate (The Arab Spring in 2011), or evolutionary such as changing gender roles in the workplace over the last 30 years.

Source: developed on the basis of Nicholls i Murdock (2011, pp.4-5).

Searching for a suitable definition of “social innovation” also is problematic at the level where we attempt to define the word “innovation”, which is referred to as a renewal, improving or creating of something new (new ideas) and implementation (creating a successful practice). The expression “social” has a number of possible interpretations depending on who defines the word (Figure 1).

![Figure 1. The perception of the concept of ‘social’ in the social sciences](source: developed on the basis of Nicholls i Murdock (2011, p.6).)
Some authors (Phillis, Deiglmeier and Miller, 2008) refer more to social innovation as improvement than change, a new solution of social problems, which is more effective, more efficient, sustainable than existing solutions and for which the value increases first produced for society as a whole rather than for individual units.

Given these conditional contexts and overlap of dimensions, we can suggest (Caulier-Grice 2012, p.18) that social innovation is new solutions (products, services, models, markets, processes) that allow us to meet social needs more effectively than existing solutions and lead to new or improved capabilities and relationships, and better use of resources and capital. In the opinion of Caulier-Grice (2012, p.21-22) social innovation is both, good for society and improves social capacity to act, and it can be achieved based on five key elements: (1) novelty – new to the sector, region, market, user, or used in a new way, (2) complexity – from idea to implementation, (3) addressing social needs, (4) efficiency – better than existing solutions with measurable results, and (5) increased social opportunities for action – the empowerment of beneficiaries, new roles and relationships, development and better use of resources and opportunities for action. These key elements are subject to such features as cross-sectorial nature, open and cooperation, grassroots initiatives, presumption, mutualism (the principle of reciprocity and supporting each other), new roles and relationships, better use of resources, the development of capital and opportunity.

At the end of the discussion we should consider the interpretation of Saul (2011), who identifies social innovation directly to the generation of value for the business by solving social problems, which is an interesting extension of earlier proposals. As Saul says, the only solution for business is to create a next generation strategy designed to generate economic value through positive social change. Therefore he suggests that social innovation can not be actions resulting from the social contract that is a result of CSR and strategic philanthropy, which he believes is an attempt to present the corporations diligence in fulfilling the role of a good citizen through philanthropic activities (doing good) and submissiveness (non-maleficence). According to Saul (2011) social innovation should be business strategy, transparent and targeted directly to the benefits, and therefore he excludes businesses developed by social entrepreneurs.

In support of their position Saul (2011) gives examples of social innovation, highlighting four key elements: (1) the intentional business strategy (based on solving a specific business problem and indicators such as ROI), (2) the use of the core business and functional departments to generate social innovation, (3) the creation of new value (economic and social) in undervalued new markets, new customer segments, new relationships, (4) positive social change (the
solution of social problems using the key business – to increase access to products or services, creation of opportunities for unsupported market segments and customer groups to achieve public purposes).

An overlap of the sectors and nature of changes to improve and activating society may mean that social innovation can lead to a redefinition of the organization and it’s activities. This could be important to the private sector, driven into commercial products and services, which is dominated by technological innovation. Social innovation is strongly conditioned by social relations inside and outside the organization, which involves changing the role of business in society and society in business (Porter, Kramer, 2011). This is due to the legitimacy of such changes by the public at the normative, pragmatic and cognitive level, which results from the neo-institutional perspective where any changes are limited by the existing social norms as the status quo by maintaining a standstill as a result of processes of „isomorphism” (Marsh, Stoker 2006 pp. 96-100).

4. Economic vs. social value – the enterprise’s paradigm shift towards shared value

The previous analysis of the cited authors showed that the effects of the use of social innovations are: performance and efficiency, sustainable use of resources, encouraging the participation of marginalized groups and activities, discovering new potentials in unattractive markets, better and measurable development based on the social relations and cooperation, linking economic and social value creation.

This point of view is closer to the concept of ‘new capitalism’ forced by the falling level of legitimacy for business in the community. The article of Porter and Kramer (2011) emphasize that this change is revolutionary and leads to a paradigm shift in the process of the value creation for companies and their suppliers. The current method of value creation is narrow and short-term oriented, looking at the economic needs of customers and the lack of prospects for long-term success.

Porter and Kramer (2011) stated that “(...) concept of shared value resets the boundaries of capitalism by better connecting companies success with societal improvements”. According to the developed idea of shared value they recognize key elements important in the process of value creation:

- Reconceiving products and Markets (asking the most basic questions about the sources that bring value),
- Redefining productivity in the value chain (linking competitive advantage with social issues),
• Enabling local cluster development (building supporting industry clusters at the company’s locations; including businesses, academic programs, trade associations and standards organizations).

The new approach involves the transformation of business thinking by bringing business to the society, the treatment of social responsibility as a key instead of the peripheral and the creation of shared value through the creation of economic value by reference to the needs and social challenges.

According to Porter and Kramer (2011) an approach based on shared value provides an opportunity to re-legitimize business in society based on the „blurring” of the boundaries between commercial and non-commercial sectors. In their view it presents interesting business opportunities, i.e.: new skills and knowledge for leaders, better understanding of the fundamentals and growth factors of productivity, collaboration between commercial and non-profit organizations, and increased innovativeness.

The quest for common values will lead to cooperation and cooption focusing on the mutual benefits of the partners rather than seeking the lowest cost. Such a strategy of action poses questions concerning the measurement of these benefits and if the result of the new approach is to increase efficiency. However, it takes into account not only the economic potential revenues, but also expenses such as generating costs. From an exchange perspective there is the question of transaction costs, where a full description of the value of the transaction should be included to avoid the pitfalls associated with uncertainty and limited rationality of a decision.

5. Corporate Social Innovation – the idea and connection with other areas

An innovative company seeking shared value (CSV) is open to the creation of new products, services, models and strategies based on other criteria than those traditionally dominant. It requires the assumptions of the modification method for generating revenue through the creation of a new quality of relations with collaborators starting from the needs and problems of society. This approach is contrary to the stable and evolutionary process of forming a successive view of products and services based on the economic model. In this case there is an innovative activity resulting in an experiment and discovering new ways to generate and deliver value to the company and its partners using the assumptions of CSR programs or the experiences of social entrepreneurs.

From the perspective of the theory, there are several interesting ways to describe the dual relationship between the area of values and innovations. On the one hand when CSR drives innovation there is the materialization of values
resulting from the activities of socially responsible companies in the form of innovative products and services. On the other hand, when innovation drives CSR, there is also the impact of innovation to CSR activity. This dual dependency is seen in different ways although research conducted on leading investments in R&D companies in Down Jones Sustainability Index (DJSI) didn’t confirm explicitly the dual relationship between innovation and CSR (Gallego-Alvarez, Prado-Lorenzo, Garci’a-Sanchez 2011). The problem which has been identified by the authors was the long time it took to generate the value of such a relationship (three years) and the ambiguity of the results and the course of action in different sectors. The practical implications were that the companies do not implement innovation coincidently with the issues of sustainable development and there is a lack of compatibility between the realized investments in R&D and stimulated behavior of CSR and sustainable development. It was also found that the measured values should cover a longer period of time.

In turn Bocquet and Mothe (2010) in their article examined the relationship between CSR and innovation. Their study shows that the relationship is dependent on the size of the company and the formalization of CSR strategy. According to them, both large and small companies can create innovation driven CSR. In the case of large companies, the main influencing factor is the formalization of CSR strategy, while the small companies rely on the attitudes and values of the founders, which can lead to revolutionary innovations.

An analysis of the relationship between CSR and innovation made by Midttun (2007) gives some explanation of the alleged lack of fit between innovation and CSR. According to Midttun, there are differences in the dynamics of the processes because CSR is perceived as static while innovation as dynamic. The fit is possible only on the cognitive level through actions and results that show the ability of the company to provide to the stakeholders an expected value based on created reputational capital. Midttun (2007) calls for the creation of social clusters focused on creating value-based co-operation with stakeholders. However, there are important questions concerning: (1) understanding the social dimension of the context of competition, (2) the consequences of the value chain. The prize for the parties could be dynamic development, as long as they work together in the cluster.

The cognitive dimension of the relationship has been well translated into the value of the article of Bhattacharya, Korschun and Sen (2011), which demonstrated that innovative companies gain a greater rate of return on investment in CSR than companies considered to be less innovative. However, this relationship only applies to the selection of high-quality products. In the case of lower-quality products, consumers choose products from companies less responsible.

To sum up, the relationship between innovation and CSR is not clearly established, but the cases shows that the rate of ROI needs to be perceived over
long-term period. Additionally the relationship may be bi-directional depending on a company’s size and the degree of formalization of CSR strategy, the owner’s vision and the quality of the products. Another aspect is the proper alignment of the declared value and realized projects to the business activity which contribute to the implementation of the activities within the social clusters.

The above analysis of the shared value, social innovations and the relationship between innovation and CSR as a value driver, points to the need for a uniform concept of these issues. This concept could be called Corporate Social Innovation (CSI) and has been already used by other authors (Saul 2011) as a substitute for social innovation focused on delivering dual value, both economic and social. The main assumption is the participation of commercial enterprises in innovative projects while being measurable and dependent on cooperation of all the entities. The presented concept is evolutionary, because it has been isolated from the wider whole, by narrowing an uncertainty of the macroeconomic innovation phenomenon to the microeconomic organization and its stakeholders.

An example of CSI is presented in Table 2.

Table 2. An example of the solution on the idea of CS

<table>
<thead>
<tr>
<th>CSI program</th>
<th>Main assumptions and partners</th>
<th>Potential sources of Transaction Costs</th>
<th>Shared value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and educational action – “Milk start”</td>
<td>Problem/social need, Lack of consumption, adequate amounts of vitamins and minerals by poorer children (at the base of the social pyramid) Partners: PARTNERSHIP FOR HEALTH Danone (FMCG), Lubella (FMCG), Institute of Mother and Child, discount shops Biedronka (FMCG, the group of Jeronimo Martins corporation)</td>
<td>Coordination between partners, drafting and enforcement of contracts, working on the preparation of the concept, working on an analysis of cost-effectiveness, time spent in meetings and arrangements between partners, additional legal services, labor intensive preparation of the new campaign, the time and expense of negotiations between the two sides, additional research fees and analysis of the new products, contracts renegotiating, difficulties in the process of implementation (partner’s opportunism).</td>
<td>Since 2006., more than 50 million servings of cereal went to Polish homes. Margin on sales improving the image and growth of interest in the media. The increase in sales of other products. A new model of cooperation. In 2011 creation of the new product „Grains sandwich.” In 2011 y. 80,000 breakfast every day. Nearly one third of them reaches families with relatively low incomes. Education. The program improving children’s diet and it is a positive example of an activity in the commercial market. Breaking stereotypes.</td>
</tr>
</tbody>
</table>

The present example clearly shows that the combination of two types of values (economic and social) are not conflicting, but tailored to the type of business and knowledge of the cooperating organizations. This concept will therefore link such areas as: shared value, CSR, social innovation, transaction costs (arising in relations with partners sharing). This interaction allows to propose a mini-model which reflects the specificity of these relationships and showing the conditions of intentional CSI to undertake the organization and its partners (Figure 2).

**Figure 2.** Determinants of conditioning initiatives in the form of CSI

Concluding we can propose some definition for designing CSI, where corporate social innovation we call „innovation” resulting from the relationship between the organization and its partners in the process of exchanges and targeted to meet present and future needs and the solutions of social problems resulting in co-creation of shared values through organizational stakeholders.

6. Conclusions

The analysis of the assumptions forces a new look at the tools that companies should use. First, the companies and their leaders must reformulate their assumptions and change the way they think about competing, especially with the use of corporate social responsibility (CSR). According to Porter and Kramer (2011) the creation of shared value (CSV) forces a shift from focusing on CSR reputation, philanthropy and sustainability to the action-oriented real benefits and costs, both economic and social.

In this way, some shared value should be formed integrally with an approach to compete and maximize profits. On the one hand, these kind of
activities should be integrated with the organizational strategy and focused on the new needs, products, customers, and ways to set up the value chain. On the other hand, new value may be created with changes and by eliminating gaps in the clusters arising from the process of identifying and meeting social needs in cooperation with commercial, governmental and non-profit entities.

Despite focusing on shared value based on avoiding conflicts between cooperating partners, companies need to take into account transaction costs arising from the process of building new relationships. Despite the altruistic reasons relating to cooperation, focusing on economic value will lead to opportunistic behavior and rationality decision-making. This combined with the specificity of resources and frequency of relationships can lead to additional transaction costs that reduce the value of the transaction as part of CSI and limit supporting behavior of other partners.

Therefore, in the process of creating and claiming CSI the most important role is played by conscious government policy and institutional regulations to stimulate innovation and appropriate targeting of the actions of cooperating entities. This will be helpful in setting the properly formulated social objectives and measurable results with the establishment of efficiency standards (without imposing ways of achieving goals), defining periods of the tasks and methods of measurement, reporting and auditing.

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