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**SOCIALLY RESPONSIBLE INNOVATIONS (SRI)  
FROM A TRANSACTIONAL COST  
PERSPECTIVE - A CHANCE FOR GROWTH  
AND DEVELOPMENT OR A WASTE OF TIME  
AND MONEY?**

**Abstract**

*This article is devoted to looking at innovations from the perspective of Transaction Cost Economics (TCE) and Corporate Social Responsibility (CSR). In analyzing the substance of the theory the author intends to show the potential challenges that will create socially responsible innovation, especially in combination with transaction costs arising from the need to build relationships with stakeholders. The author puts forward a number of proposals in an attempt to integrate presented solutions indicating the objective of the development and implementation of responsible innovation in modern organizations.*

*Key words: Socially Responsible Innovations (SRI), Corporate Social Responsibility (CSR), innovation, Transaction Cost Economics (TCE), open innovation*

**1. Introduction**

The theory of transaction-costs is often seen in terms of an exchange of purely economic terms, where the organization interested in seeking continuous improvements through savings resigns from the independent implementation of certain tasks and processes in favor of an external specialist contractor. Such an arrangement is based on outsourcing, which has become one of the most frequently used concept in production and services industries both in terms of local and globally recognized organizations. The popularity of outsourcing is no longer only concerns searching for cost savings through reductions, but also seeking new knowledge, skills and experiences and by cooperating

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with specialized firms, enabling an acceleration in the areas of research and development leading to the introduction of new products to market.

Portraying the idea of socially responsible innovations (SRI) with the internal and outside prospect is the purpose of this study; i.e. transaction costs influencing the process of innovation as well as corporate social responsibility portraying new areas in the search for innovation and costs associated with it. The realization of the goal put forward requires acknowledgement of the assumption that transaction costs have become a relevant aspect in the process of establishing responsible innovations as they are most often connected with the costs of searching for, bargaining, monitoring and coming to terms with partners in exchanges connected with them.

The theory of transaction costs indicated to researchers how companies can gain a competitive advantage by selecting the appropriate mode in realizing their goal of utilizing economic transactions. On the other hand, researchers are paying attention to the behavioral aspects of these processes and especially to the elements of justice in economic exchanges, which may lead to a reduction in these costs [Husted, Folger 2004]. This seems to be particularly important in terms of socially responsible innovation, where costs and social effects of the implementation of ideas are of particular importance for the subsequent commercialization of the developed solutions and generating value.

## **2. The uncertainty of transaction and its new social conditioning**

### **A. Transition-cost theory**

In literature, "transaction cost theory" is seen as a result of the development of a new perception of modern organizations coming out of the mainstream of the new institutional economics, which was in response to criticism of the assumptions of the neoclassical theory of the firm [Paauwe and Boselie 2003], limiting such analysis of a company through the use of the so-called, "Black box" approach. New insights from an institutional perspective led to a revolution in the theory of organizations forcing it to be noticed from a social context (traditions, networks of relationships, pressure control), on which decisions concerning types of resources, as well as negotiation and execution of contracts are based.

Assumptions for the transaction-cost theory (TCE) were created in 1937 by Coase and developed in 1975 by Williamson, for which both were awarded the Nobel Prize. Coase's classic article, "The Nature of the Firm", expanding the boundaries of firms, pointed to the markets and hierarchy as an alternative regulatory structure, determined by the difference in transaction costs. This

theory was developed by Williamson, who operationalized it demonstrating that you can introduce a testable hypothesis by combining the relative efficiency of alternative regulatory structures (market and hierarchy) of discernible dimensions of a transaction; namely, resource specificity, uncertainty and frequency of transactions. The increase in uncertainty, specific resource and the transaction rate increases transaction costs, which will result in the company desiring to seek to minimize the vertical integration of hierarchical controls instead of using the market.

Some authors studying the theory of transaction-costs [Jones, Hill 1988: Brice, Nelson, Gumby 2011] point to several elements of these attributes: (1) limited rationality - due to the limitations of their knowledge and cognitive processes associated with the information, (2) opportunism - act according to their own interests, the tendency to look for changes in the conditions of the concluded contract, (3) uncertainty / complexity - in a business environment, (4) a small number of commercial relations - the reliance on a single supplier of resources may result from his opportunistic behavior, (5) specific resources - sunk costs in resources-assets that have limited use beyond a single transaction, (6) the impact of information - when one party to a transaction has more knowledge than others, even if it is difficult to estimate the costs of information in connection with uncertainty due to limited rationality and opportunistic activities of parties to the transaction, if the conditions are unknown or difficult recognizable .

As indicated by Geyskens, Steenkamp and Kumar [2006] the fundamental question in the theory of transaction costs is the dilemma: Is the transaction effectively implemented within the organization (if there is vertical integration), or rather outside contractors by the autonomous (market adjustment)? A priori assumption of the transaction-cost theory is the claim that regulation of the market is more efficient than vertical due to the existence of competition, as the transactions carried out within the framework of hierarchical controls are the phenomenon of bureaucracy, which can reduce their effectiveness.

Selection and effectiveness of forms of regulation will be determined by the level of uncertainty caused by the developed technology innovations that may affect an increase or decrease of pressure on vertical integration, depending on whether they are more evolutionary, or revolutionary in character. This situation is associated with difficulties such as identifying information needs, necessary investments in process innovation and the ability to predict the behavior of opportunistic exchange partners [Wolter, Veloso 2008]. The uncertainty in the innovation process increases the transaction costs through the need to renegotiate and renew contracts as a result of haggling and changes in contracts [MacGregor, Fontrodona 2008].

Transaction costs in conjunction with other theories such as new institutional economics "Agency theory" suggests that the essence of a company are concluded contracts and transactions, which are accompanied by bounded rationality and opportunism choice of units, where the company is seen as a management structure and the institutional sphere, through regulation, has an effect on the functioning of the market [Williamson 1998: 30]. Such assumptions underline the importance of cost management, which may involve limiting events occurring before, during and after the transaction. Williamson [1998: 33-35] divides costs according to the moment of their creation into ex-ante and ex-post. Ex-ante costs are costs arising in preparation for the transaction, which include the costs of design, negotiating and securing contracts. Ex-post costs are related to the monitoring and enforcement of the contract terms, which include costs of failure, renegotiating current assumptions and current costs associated with administration as well as other costs.

Another aspect influencing transaction costs is the lack of resolution observed in clinical management Argyres and Liebeskind Porter [1999] and the resulting dependence of the contractors. The inability to separate them is due to two problems; the existing contractual obligations and the bargaining power of business partners. Treating the company as a system of obligations authors suggest two sources of such obligations arising from formal and informal or even illegal contracts. This would result in greater risk and uncertainty including changes in the bargaining power of suppliers, which may change local management mechanisms causing decisions which are contrary to opportunities presented by the market and the company may lose operational flexibility.

In view of the volatility of today's markets, Ghoshal and Moran [1996] also consider the possibility of including in the process the shaping of transactions in a social context, when as they claim, it is those organizations that are not able to create a context needed to build trust and commitment who lose their place in the market. Confidence and learning is just as important in an organizations relation to the market, as efficiency and expediency in the regulation of the market and hierarchical. Lack of trust between trading partners creates conditions in which each transaction must be analyzed and verified, which increases transaction costs to an unacceptable level [Kwon, Suh 2004].

This also applies to the hierarchical mechanism as a regulator, because as shown by Husted and Folger [2004] in the analysis of transaction costs, there is always the issue of a fair assess of any specific exchange of goods and services. The result is that management mechanisms and the feeling of justice are moderated by elements "interactive justice" in relation to the exchange, which means that: (1) in the presence of interactive justice, participants in the transaction positively perceive the administrative mechanism hierarchy to be fair, (2) the greater the perceived injustice of the administration mechanism

hierarchy, the higher the transaction costs generated by this mechanism, (3) the larger the ex-post transaction costs caused by the injustice, the greater the likelihood that the administration mechanism fails. The consequence of injustice in the mechanism of administration will be the need to rebuild or restructure in order to reduce transaction costs.

An example confirming the problems within the context of social dilemmas research is emerging about disconnecting or supply chain integration in a distributed production system fuel sector in Scandinavia. In his research Midtun [2005] demonstrated that compared with the assumptions of transaction costs of corporate social responsibility (CSR) there is a conflict. Standards concerning effectiveness would be at the optimal level for contracting out. On the other hand, taking into account social and environmental issues, a hierarchical integration or long-term alliances more characteristic of high specificities of resources may be better suited. This would result in a reduction of efficiency through the integration of the supply chain-oriented CSR or negligence in credibility as a socially responsible company following the increase in competitiveness through the choice of contracting out. An even greater discrepancy would arise when these two perspectives dictate two different groups of suppliers, creating a dilemma for the trade-off. Midtun [2005] identified three levels to solve this problem in a situation of cooperation with external partners in the supply chain. The first solution is to be fit at the strategic level with partners by forcing certain ethical standards, procedures, and compliance with the CSR at the strategic and operational level. The second is to protect the interests of the company's contracts with partners supported by clauses for both the positive and the negative; positive incentives to accept higher prices in return for carrying out CSR (search for opportunities for innovation), and a negative entry on the compensation for not meeting the CSR (risk management). The third option is to use regulation through cooperation with government regulators establishing appropriate guidelines and regulations in the area of CSR.

In summarizing the following propositions may be included for further consideration:

*Proposition 1*

*Regardless of the type of transaction regulation, the organization must take into account the regulatory environment associated with ex-ante and ex-post in administering the transaction, to consciously shape the social context and interactional justice in order to build the level of trust and commitment resulting in a decrease in the level of uncertainty and opportunistic actions as well as the cost of transactions.*

## B. CSR perspective

Corporate social responsibility is often viewed too narrowly, especially by SME entrepreneurs who limit their activity to giving donations to various social organizations [MacGregor, Fontrodona 2008]. It also appears that many companies do not know that compliance with regulations, particularly labor laws and maintaining profitability in business, is also being socially responsible. This means that the vast majority of organizations do not use CSR in a conscious way. In these companies CSR is not utilized as organizational knowledge, an area for learning, not to mention as a source of innovation. Despite this, in their business activities they affect stakeholders by: engaging employees, becoming involved in the local community, undertaking environmental activities, activity within the supply chain, and cooperating with clients. Examples of such activities are shown in Table 1.

**Table 1.** Percentage and examples of CSR in the SME sector

Areas of activity	Percentage	Description of the CSR activities
Employees	30%	<ul style="list-style-type: none"> <li>• Investment in people and their skills, T&amp;D programmes</li> <li>• Building employees engagement</li> <li>• Flat management structures</li> <li>• Employee newsletters</li> <li>• Mentoring, coaching and employee volunteer programs</li> <li>• 360<sup>o</sup> appraisal schemes</li> <li>• Social events for employees</li> <li>• Work-life balance and family-friendly employment</li> </ul>
Community / Society	26%	<ul style="list-style-type: none"> <li>• Work with local schools</li> <li>• Donation to local cultural and sporting events, sponsoring local sports teams</li> <li>• Support local homeless people</li> <li>• Support employees to work in the community (time banks)</li> <li>• Community engagement programmes</li> </ul>
Environmental	23%	<ul style="list-style-type: none"> <li>• Implement ISO 14001</li> <li>• Waste minimisation, re-use and recycling schemes</li> <li>• Reduction of use of harmful chemicals</li> <li>• Reduction of atmospheric emissions</li> <li>• Use of energy from renewable sources</li> <li>• Membership of environmental organisations</li> <li>• Investment in new technology</li> <li>• Environmental reporting</li> <li>• Award-winning environmental schemes</li> </ul>

Areas of activity	Percentage	Description of the CSR activities
Supply chain	14%	<ul style="list-style-type: none"> <li>• Open house policy for customers, suppliers and competitors to look around</li> <li>• Directorship of business associations</li> <li>• Development of long-term partnership with customers and suppliers</li> <li>• Supplier learning schemes</li> <li>• Measurement of key performance indicators and feedback to staff, customers and suppliers</li> <li>• Winners of industry awards</li> <li>• Support and encouragement for suppliers to become more socially responsible</li> <li>• Participation in industry best practice programmes</li> <li>• ISO9001 quality standard</li> </ul>
Customers	7%	<ul style="list-style-type: none"> <li>• Design for all</li> <li>• Ecodesign</li> <li>• Direct relation and involvement</li> <li>• Training programmes</li> <li>• Open door day</li> </ul>

Source: Own elaboration on the basis of: MacGregor S.P., Fontrodona J., Exploring The Fit Between CSR And Innovation. Working Paper, WP-759, July, 2008

The existing state of awareness of CSR stems not only from lack of knowledge, but also with the underestimating the CSR as an opportunity for companies and sources of value. Companies do not utilize CSR, because they have a problem with priorities; for example in the selection of relevant socially important issues and matching activities in the area of CSR to their business and sales [Grayson, 2010]. Such situations discourage boards of companies from becoming interested in CSR, as it is then viewed more as an additional cost cutting into profits. In many companies, especially SMEs, there is lack of time and people to carry out current tasks. Problems also stem from the lack of integration of new ideas with existing company policies, a lack of understanding the principles and tools of CSR and stagnation in the company [MacGregor, Fontrodona 2008].

In literature, corporate social responsibility is said mainly to refer to its stakeholders and challenges in three different areas; economic, social and environmental. The goal of such an activity should be to minimize the risks and negative impacts and to maximize the opportunities and positive contribution to society and the environment by anticipating future regulations and requirements in the area of business. This implies a different perspective on the concept of managing the organization, which must have risk management and create new value through innovation aimed at addressing social constraints correlated with the existing businesses. This understanding leans toward the perception of CSR as an activity integrated with core activities and competencies of an organization.

According to Porter and Kramer [2006] CSR policy contributes to obtaining the shared value by the ability to fit between the value chain and social dimensions of competitive context. This requires: (1) identifying the points of intersection, the interdependence between a company and society takes two forms: inside-out and outside-in linkages, (2) creating a corporate social agenda, by categorizing and ranking social issues, (3) develop a social agenda to guide the company's transition from a reactive to a proactive stance, the set periodicity and less action, but of greater importance for the company and society, (4) integrating inside-out and outside-in practices by pioneering value chain innovations and addressing social constraints to competitiveness (5) creating a social dimension to the value proposition, a unique value proposition: e.g. a set of needs a company can meet for its chosen customers that others cannot, adding social dimension to the existing strategic dimensions and goals

This issue was addressed widely by Geva [2008] in her research work, which supported the hypothesis that matching business and social activities, as referred to by Porter and Kramer concern decision-making issues managers have to face relating to the various interpretations of existing CSR models on the market, from among others Carroll's<sup>[1]</sup> well known responsibility pyramid model and the IC (intersecting circles of responsibility). According to Geva, the first model results in the relationship between attention to social issues and deliver profits depending largely on the cultural and institutional context. These relationships are important in placing economic responsibility, as the key responsibility of the company. A surprising fact is the author's assertion that the only "glue" in Porter's model is loss and threat. Subsequently, the IC model, placing equal importance upon all areas of responsibility may cause problems for managers in decision making because they do not indicate any priorities. From the perspective of the problems caused by both models the author has proposed a CON model of responsibility (concentric circle), which integrates all types of liability by placing the responsibility at the center around the economic and other responsibilities (legal, ethical and philanthropic). The CON model establishes for managers the main criterion for decision making to improve social welfare. The main driver in this model is ethics, and ethical values shape the search for opportunities, build organizational systems and decision-making of both individuals and groups. In the company all responsible duties are integrated with each other and are not treated like a bunch of independent goals.

Today's organizations are entities with fuzzy boundaries, where management is forced not only to pay close attention to current financial results,

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<sup>1</sup> Carroll's pyramid model assumes layered arrangement of responsibilities, starting with the economic, legal, ethical and philanthropic. This model assumes that your first responsibility is to generate a sufficiently high positive financial results.

especially to economic costs as a result of decisions, but also consider the social costs that can seriously undermine their image and thus lead to global losses. The current emphasis on corporate social responsibility and focus on running a sustainable business mean that companies are under constant pressure and observation of various interest groups. One such example is the policy of Coca-Cola which met with protests in India. Critics responded that Coke shouldn't be locating bottling plants in drought-stricken areas. Coca-Cola is allegedly responsible for creating problems for communities by creating severe water shortages and polluting the groundwater and soil, destroying farms by draining them out completely. Although the decision on the placement of plants in countries with lower transaction costs seems to be correct, it causes challenges for the pre examination of the impact of the activity to the local ecosystem [Meyer, Kirby 2010].

In summarizing the following propositions may be included for further consideration:

*Proposition 2*

*Creating innovation in line with CSR forces a company to develop relationships with the competitive context in order to use the value chain to seek shared value, which can positively influence the reduction of uncertainty and opportunistic actions, although it can increase transaction costs related to the coordination and monitoring of co-operation with stakeholders.*

*Proposition 3*

*The use of CSR in the process of human resource management (i.e. motivating employees), allows the use of new tools such as building relationships, employee volunteering, which can reduce the cost of creating innovative solutions.*

### **3. Perceptions of innovation and socially responsible principles in their design process**

#### **A. The essence of innovation**

Innovativeness and innovations are currently fashionable and the subject of interest for theories and management. In the continuous search to distinguish themselves, companies attempt to find innovative methods in their operations by spending more money on research and development. On the other hand, management theorists and those from other fields, especially technical, are seeking answers and solutions for creating, deploying and commercializing innovative ideas and their products.

Drucker [2004, p.32] stated that innovation is the specific tool of entrepreneurs, the means by which they change the meaning and value of existing assets. Innovation leads to the implementation of new changes, interests and services. It isn't accidental, but is the result of a purposeful search for entrepreneurs who are not only looking for, but also have the knowledge to grasp the way of successful innovation and its implementation. Innovation can be defined as a process of systematic, purposeful and organized search for changes and opportunities that may result from these changes. Innovation is therefore a process of change; an exploration of ways to create exceptional performance, value and satisfaction obtained from resources by consumers.

In the searching for innovation, we can go beyond the technological or product side, to see it as a process or activity model that enable us to search for different sources of innovation. A curious example is the Innovation Radar developed by Sawhney, Wolcott and Arroniz [2006] demonstrating the 12 dimensions (figure 1) of business innovation companies use in their search, in other words: WHAT (offering) – platform, solutions, WHO (consumers), customer experience, assumed value, HOW (the processes it employs) – the organization, supply chain, WHERE (presence in the marketplace) – networking, brand building. As set out by the creators of the Innovation Radar, Sawhney, Wolcott and Arroniz [2006], business innovation is the search for new value and not just products, to skillfully seek for opportunities and undeveloped areas of the market and customers, and finally a systematic process of exploration and innovation encompassing the necessary elements such as distribution channels. The Innovation Radar indicates the following ways of searching for innovation: developing new products and services, creating derivative offerings; uncovering segments of the market unattended to or underserved; discovering totally new customer needs or unsupported segments; redesigning customer interaction; redefining methods of payment, services and products; redesigning core operating processes to improve efficiency and effectiveness; changing the form, functioning or activity scope of the firm; changing the way the company approaches supplying and meeting the expectations of suppliers and customers; creating new distribution channels and places where the customer has contact with the product - innovative points of presence; creating network - centric intelligent and integrated offerings; using well-known brands to create other domains of action.

Looking beyond the marketing and functioning definition of innovation we should pay attention to the typology of Henderson and Clark [1990], who identified four types of innovation: incremental (evolutionary), modular, architectural and radical. Incremental innovation is evolutionary, introduces relatively minor changes to an existing product using the existing potential and often reinforcing the dominance of the company. Modular innovation,

such as replacing analog phones with digital ones, is an example of innovative change to the key concept of the project without changing the architectural design. Architectural innovation is the reconfiguration of an ambient system to combine existing components in new ways. The component may change, but does not alter the main concept of the design or engineering knowledge to be used (eg, fan room concept). The other extreme is the radical innovation, which is the contrast based on different assumptions of engineering and scientific principles, opening the market and potential applications. Usually this kind of innovation causes big problems for companies, but can mean a successful entry into a new market or company and thus redefining the industry. This type of innovation refers to the Schumpeterian phenomenon of "creative destruction" as a process of transformation, often accompanied by groundbreaking discoveries. Henderson and Clark [1990] describe this as the product of an innovative application of knowledge into two forms: as a system and a collection of components. In their view, for the success of a product or service two types of knowledge are required: (1) the component, or the key design concepts that made the component, (2) architectural knowledge, or knowledge of how components are connected together and form a whole.

The presented typology of innovations is not exhaustive due to the large accumulation of different types of literature, however, it indicates the nature of innovation and challenges in creating and managing people and their knowledge. In conjunction with the concept of transaction costs, this division specifies the possible impact of actions taken on the direction and degree of vertical integration of activities. Voltaire and Veloso [2008] pointed out that the incremental and architectural innovation will reinforce their competence, modular and radical will be directed to the destruction of existing power to create new ones. In addition, all types beyond incremental innovation, due to transaction costs, will lead to vertical integration.

An interesting way to create innovations is the use of the knowledge of every man, by opening a business on the environment in projects that enable the collective exchange of information. These innovations are called "open innovations". According to Chesbrough and Garman [2010] open innovation allows for the free, bi-directional flow of intellectual property and people between the company and its environment. This movement can be centripetal (outside-in open innovation), where the company utilizes outside ideas and people and centrifugal (inside-out open innovation), i.e. placement of resources or projects outside the company, obtaining the benefits of collaboration and license granted and eventually taking over a well-developing business. This way of creating innovation makes it possible to prevent the negative practices of companies in the form of "hidden innovation on the shelf", developing new products and increasing the chance of a return on investment in R&D.

A well known example of open innovation is the firm, InnoCentive, created and developed by Eli Lilly. InnoCentive is the open innovation and crowdsourcing pioneer that enables organizations to solve their key problems by connecting them to diverse sources of innovation including employees, customers, partners, and the world's largest problem solving marketplace. Their Challenge Driven Innovation methodology, network of millions of problem Solvers, and cloud-based technology platform combine to transform the economics of innovation and R&D through rapid solution delivery and the development of sustainable open innovation programs.

InnoCentive is an example of the use of the idea of "crowdsourcing" [Lohr, 2009], which draw on the knowledge, ideas and inspiration of the crowd, i.e. ordinary people who are employed to solve problems issued by the company and in exchange for interesting solutions are paid their fees, or their ideas are transformed into products. The value of crowdsourcing is formed at the interface of the client organization and the collective knowledge of those interested in a particular solution to a problem that may result in the creation of innovation. Everyone has something to gain. The company acquires engagement of virtual workers, and pays only for results, while individuals have an opportunity to earn money, and to work with major brands and manufacturers.

In summarizing the following propositions may be included for further consideration:

*Proposition 4*

*There is no single correct instruction for creating successful innovation, because it can be either slightly modified products, as well as breakthrough changing the entire industry. Equally important is the process of systematic and multi-dimensional search for innovations, although the more radical innovation becomes, the higher uncertainty and transaction costs, making it necessary to increase the vertical integration.*

*Proposition 5*

*The level of transaction costs can be reduced by generating innovations with the use of "collective mind" i.e. alternative forms of acquisition, through open innovations and crowdsourcing, using a unique knowledge and skills and increase the relevance of innovation on the market (the level of acceptance and sales of innovative products / services / business models).*

**B. Socially Responsible Innovation (SRI)**

The revolutionary formula of corporate social responsibility changes the picture of today's organizations by introducing the measure, including

implementation of innovative models of work, creating a new logic of competition, as well as finding new methods of leadership and redefining business objectives [Hollender, Brenna 2010, p 8]. So called for combining innovation with CSR requires the transformation of an inactive attitude, by a reactive, to proactive, also referred to as creative [Pyszka 2011, p.101]. The shift towards a reactive posture is the first step towards consciously implemented CSR, although limited to the chaotic, short-term corporate identity creation.

MacGregor and Fontrodona [2008] stated that mainly innovative companies use a proactive CSR approach, anticipating future trends and forcing them to other companies in the industry as influential leaders (on a principle similar to the diffusion of innovation). The result of the proactive approach will be searching for fit between CSR and innovation, which can be carried out through the virtuous circle of value presented in the work of MacGregor and Fontrodona [2008] with two kinds of activities: innovation driven by CSR (CSR-driven innovation), and CSR stimulated by innovation (innovation-driven CSR). Creating value in accordance with the model of MacGregor and Fontrodona [2008] will take place in four areas namely: processual, organizational, relational and social. However, innovation will affect CSR from the process sphere, and CSR will stimulate innovations beginning from the social needs analysis. The CSR driven by innovation will launch a process of social stigmata among employees, customers and the supply chain, which can lead to the creation of additional value. MacGregor and Fontrodona [2008] stated that the process of creating a socially responsible innovation requires several steps, i.e. (1) understanding the organization, (2) identify existing state, (3) designing the ideal state, based on strategic plans and expectations of stakeholders, (4) comparing current and ideal state, (5) identifying opportunities and risks, (6) action. Then the process returns to step one assuming the process of learning through experience gained.

Creating a socially responsible innovation may result from risk avoidance, but also seeking business opportunities. By focusing on sustainable and effective results an organization is forced to take steps such as: analyzing the future and current legal requirements of the company (use restrictions as the sources for innovation), sustainable development of the supply chain (reduce the negative impact on the environment and increase cooperation), introduce changes in operating activities (focused on savings), search for new business models (new insights into customer needs, creating new technologies and open innovations), develop new platforms, practices and provide the infrastructure for responsible solutions [Nidumolu, Prahalad, Rangaswami 2010, pp. 62-71].

Searching for opportunities between business and society (CSO - Corporate Social Opportunity), affect the development of activity in the social and ecological sphere, leading to innovation in products and services, new markets

and new business models [Jenkins, 2009, pp. 22]. As pointed out by Bartlett [2009, pp. 418] this is because the models guided by the social needs can lead to remodeling, and even transform a company to meet the needs of society. Such a procedure involves customers and leads to the reconstruction of the organization based on bottom-up innovations and establish relationships with the entities in the social environment of the company, capable of achieving sustainable financial and social performance.

*Proposition 5*

*Socially Responsible Innovation (SRI) require a skilful combination of top-down strategic initiatives, and bottom-up evolutionary, to involve different groups of stakeholders, which may reduce the costs of uncertainty and opportunism, but forcing the hybrid solutions combining regulatory constraints of hierarchical bureaucratic problems in the flow of information between partners.*

#### **4. Conclusions**

This paper has presented use of CSR from the perspective of TCE (Transaction Costs Economy) as a catalyst in the process of creating innovations, especially in the process of creating innovative business models, which move companies from bloody "red oceans" to "blue oceans" (out of the competition). There is a lack of studies combining CSR, innovations and transactional costs, therefore future developments require factors identification and focus on building bridges between theory, research and practice across the interrelated fields of CSR, innovations and transactional costs.

In addition to the above propositions, according to a transactional-costs economy Socially Responsible Innovations (SRI) have to:

- be sensitive to social needs combined with key business activities or building the knowledge and expertise of the company
- be aware of consequences that may result from this innovations, both used in the framework of legitimate products and services (public and military) and illegal (terrorism, hacking, etc.)
- use the "collective brain" for the creation and dissemination of innovations and commercialization of products and services
- use the CSR to build responsible products, services, processes and business models but in order to circumvent the competitors using "blue ocean" strategy (e.g. Toms Shoes Company)
- use CSR as a tool not only inspiring to new ideas, but also disciplinary stakeholders in order to reduce uncertainty and opportunistic actions,

using positive and negative gain thus allowing the reduction of transaction costs and to motivate contractors to carry out CSR activities

Socially Responsible Innovations seem to be an opportunity for creating better innovations with lower costs of implementation, also based on the new forms of cooperation with different networks (alliances, cluster, virtual, etc.).

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