

# **A Literature Review on Corporate Social Responsibility in the Innovation Process**

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## ***Abstract***

*This literature review explores the state of the art in corporate social innovation (CSI) research. It briefly outlines the main themes in the corporate social responsibility (CSR) debate (organizational legitimacy, moral choices, stakeholder interaction, and sustainable development) and the organizational innovation literature (incremental vs. radical and sustaining vs. disruptive innovation; user-driven innovation; entrepreneurial opportunities; individual entrepreneurs, and institutional entrepreneurship). The paper then reviews the major objects of corporate social innovation singling out the base of the pyramid (BOP), social entrepreneurship, and eco-innovations as key themes. It closes by analyzing how social innovation is enacted at each of the four levels discussed in the first part. Finally, a list of references concerning real life practice is included to function as inspirational readings.*

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## INTRODUCTION

Corporate Social Responsibility (CSR) has permeated management practice and theory up to a point where CSR can be referred to as the latest management fad (Guthey, Langer, & Morsing, 2006). However, so far CSR integration into business processes has been very uneven. Hockerts (2008), for example, finds that most firms conceptualize CSR primarily as a tool to reduce risks and operational cost. Only a minority of firms is actually using CSR as a means to drive innovation. In their study of 150 German and British pharmaceutical companies Blum-Kusterer and Hussain (2001) similarly find that regulation and technological progress are the two main drivers for sustainability innovations. They observed that the lure of emerging market niches was no important motivator for the firms studied. This is unfortunate since bringing stakeholders into the innovation process offers important opportunities to increase both the social and financial performance of firms.

This report is part of the Nordic Centre on Corporate Responsibility (NCCR) a collaborative research effort, bringing together CSR scholars from Denmark, Sweden, Norway, Finland, and Iceland under the sponsorship of the Danish Commerce and Companies Agency (DCCA) with the goal of studying CSR-driven innovation in the Nordic region. With this literature review Copenhagen Business School (CBS) aims to provide the theoretical grounding of the empirical work to be undertaken by the NCCR. The report falls into five parts:

- a brief review of key concepts in the CSR debate (i.e. organizational legitimacy, moral choices, stakeholder interaction, and sustainable development)
- a short discussion of the state of the art of innovation literature (i.e. incremental vs. radical innovations; sustaining vs. disruptive innovation; user-driven innovation, the entrepreneurial process, the role of the entrepreneur, institutional entrepreneurship)
- an analysis of extant publications on CSR and innovation (corporate social innovation, base of the pyramid (BOP), social entrepreneurship, and eco-innovations)
- an analysis of social innovation on all four levels discussed in the first part.
- we close by providing a list of global examples of social innovation brands.

## **PART I: CSR BETWEEN LEGITIMACY, ETHICS, STAKEHOLDER DIALOGUE, AND SUSTAINABLE DEVELOPMENT**

In recent years the business strategy field has experienced the renaissance of corporate social responsibility (CSR) as a major topic of interest. The concept has not surfaced for the first time. CSR had already known considerable interest in the 1960s and 70s, spawning a broad range of scholarly contributions (Cheit, 1964; Heald, 1970; Ackermann & Bauer, 1976; Carroll, 1979), and a veritable industry of social auditors and consultants. However, the topic all but vanished from most managers' minds in the 1980s (Dierkes & Antal, 1986; Vogel, 1986). Having blossomed in the 1970s CSR all but vanished and only re-emerged in recent years.

CSR resurfaced forcefully over the past ten years in response to mounting public concern about globalization. Firms find themselves held responsible for human rights abuses by their suppliers in developing countries; interest groups demand corporate governance to be transparent and accountable; rioters from Seattle to Genoa protest violently against the cost of free trade and other perceived negative consequences of globalization. However, nearly two decades of neglect have helped to undo much of the past achievements of corporate social responsibility. It is thus no surprise that both practitioners and scholars are struggling once again to answer the question what the strategic implications of CSR are.

The literature on CSR and innovation draws on a number of different theoretical traditions, which often are in contradiction to each other. Wood (1991) describes three levels of analysis: institutional, individual, and organizational. We add to this analysis a fourth level which we will characterize as global.

### **Institutional Level: CSR as Organizational Legitimacy**

Davis (1973) describes the iron law of responsibility, as the fact that firms exercising power will eventually be held accountable by society. At this level CSR can be best understood as a quest for organizational legitimacy. Firms are under the obligation not to abuse the power invested on them by society or they risk losing society's implicit

endorsement. More recently this view point has resurfaced as a firm's need to retain its "license to operate" (Post, Preston, & Sachs, 2002: 21).

### **Individual Level: CSR as Moral Choices of Managers**

At the individual level, CSR has been constructed by Ackermann (1975) as managerial discretion. According to this view managerial actions are not fully defined by corporate policies and procedures. So although managers are constrained by their work environment they nonetheless have to weigh the moral consequences of the choices they make. The view of CSR is strongly anchored in the business ethics literature (Jones, 1991; Donaldson & Dunfee, 1994; Crane & Matten, 2003).

### **Organizational Level: CSR as Stakeholder Management**

With Freeman's (1984) seminal book the focus moved from legitimacy and morals towards a new theory of the firm. Social considerations are thus no longer outside an organization but are part of its purpose of being. CSR thus becomes a question of stakeholder identification, involvement, and communication (Mitchell, Agle, & Wood, 1997; Morsing & Beckmann, 2006; Morsing & Schultz, 2006).

"The purpose of stakeholder management was to devise a framework to manage strategically the myriad groups that influenced, directly and indirectly, the ability of a firm to achieve its objectives." (Freeman & Velamuri, 2006)

The aim of stakeholder management is thus to analyze how a company can serve its customers and be lucrative while also serving its other stakeholders such as suppliers, employees, and communities. Recently the stakeholder perspective has dominated the reinterpretation of CSR pushing the question of the legitimacy of corporate power as well as the moral dimension of managerial decisions more into the background.

**Global Level: CSR as Sustainable Development**

The latest literature tradition to have impacted our understanding of corporate social responsibility is that of sustainable development. It was the Brundtland Commission (1987) that for the first time systematically emphasized the link between poverty, environmental degradation, and economic development. Its definition of sustainable development, as meeting the needs of the present, without compromising the ability of future generations to meet theirs, extends the responsibility of firms both inter- and intra-generationally. Thus firms are expected to also consider traditionally unrepresented stakeholders such as the environment and as well as future generations. Although many CSR authors have taken up the notion of a “triple bottom line” (Elkington, 1997) there remain important tensions between the CSR and the sustainable development debate (i.e. Dyllick & Hockerts, 2002).

## **PART II: ORGANIZATIONS AND INNOVATION**

Definitions for innovation abound. From an economic perspective the following *definition* can be a useful point of departure:

"Innovation is the process through which productive resources are developed and utilized to generate higher quality and/or lower cost products than had been previously available. [...] [Innovation] requires the visualization of a range of potentialities that were previously hidden and that are now believed to be accessible. Thus, innovation strategy is in its essence, interpretative and therefore subjective, rather than 'rational' and objective." (O'Sullivan, 2000: 393, 409)

It is important to note, as do Nelson and Winter (1977: 66), that market environments are only one possible social system within which innovations can occur. As will be discussed later innovation can also happen in non-market environments such as the public or voluntary sector.

In this part we will focus on three schools of innovation (Incremental and Radical Innovation, Sustaining and Disruptive Innovation, User-driven Innovation) and three focus areas of entrepreneurship (Exploiting Entrepreneurial Opportunities, The Role of the Entrepreneur, Institutional Entrepreneurship).

### **Incremental and Radical Innovation**

Radical improvements "represent technical advance so significant that no increase in scale, efficiency, or design can make older technologies competitive with the new technology." (Tushman & Anderson, 1986: 441) Lazonick (2001), therefore, differentiates innovating enterprises from merely optimizing enterprises by characterizing innovative enterprises as transforming technological and/or market conditions, so as to differentiate themselves from other forms in an industry to gain sustained competitive advantage. It is an important goal of innovation research to identify, analyze, and select possible innovations and then to implement them internally or through the foundation of new ventures (Servatius, 1994; Van de Ven, Polley, Garud, & Venkataraman, 1999).

American aircraft manufacturer Boeing came up with a virtual team combining people from very diverse backgrounds in order to spark radical innovation. Creativity was enhanced by people collaborating across different disciplines, product groups and industries. This became a huge success in the case of the Boeing-Rocketdyne, fundamentally changing the engine structure and thereby the market mechanisms. On the other hand, incremental innovation is non-radical improvements and restructuring of processes occurring within the organization. Consumer goods manufacturer Gillette use incremental innovation to improve the way business is done by every employee at every level and every function within the organization. This came to a restructuring of the collection of receivables by upgrading training and incentives programmes and removing the collection team from the sales department. This generated about \$700 million of excess cash.

### **Sustaining and Disruptive Innovation**

Innovation can also be characterized by its ability to either strengthen a firm's existing capabilities and market position or to disrupt them by rendering competencies obsolete or reaching out to new customers and so-far unserved markets (Abernathy & Clark, 1985). Christensen (1997) points out that established firms often find it difficult to react properly to new technologies if they happen outside their current markets. He differentiates between sustaining and disruptive technologies (Bower & Christensen, 1995; Christensen, 1997; Christensen & Overdorf, 2000). Sustaining innovations happen in the core market of a firm and result in a product delivering better quality at a lower price. Disruptive innovations occur at the margins of established markets. Providing at first worse quality than existing products, these innovations are ignored by the mass market and consequently by the leading producers. Usually there is only a small group of dedicated customers who buy these products because they like a distinctive feature of the disruptive innovation and otherwise do not care too much about bad quality or high prices. By serving these niche markets innovative firms can build new capabilities that will allow them to extend the niche. Once the disruptive innovation has improved on the

traditional quality and cost dimensions, innovative firms are then well positioned to attack the mass market.

A great industrial example of disruptive innovation is the health care industry, where the so-called Minute Clinics have become an alternative for some people to the hospital emergency room. These walk-in offices provide offerings limited to relatively simple treatments and diagnoses. The treatments are affordable and convenient to a client base otherwise excluded from the specialist treatments. Thereby, the disruptive innovation is established at the rim of the market, eventually positioning itself within the niche to attack the mass market.

Large corporations are many times accused of focusing too much on cost efficiency and defending established market shares on behalf of innovation strategies. Ford Motor Company has seen a decrease in performance due to a corporate culture that prioritized efficiency over innovation. The Toyota story on the other hand offers plenty of sustaining innovation examples that turned the company into a market leader, among these the “lean” management system.

Kim and Mauborgne (1997; 1999; 2005) talk of disruptive innovations as “value innovations” or “blue ocean strategies”. Value innovators do not take as given the structures and dynamics in their market, but rather see the possibility of creating new market space. Schumpeter has been the first to describe the creation of competitive space through disruptive innovation. He calls this the quintessential entrepreneurial act (Schumpeter, 1962 [1934]: 132).

### **User-driven Innovation**

Eric von Hippel (1979; 1986; 2001) has introduced the notion of (lead) user-driven innovation to describe the ability of user communities to initiate and develop exceedingly complex products sometimes even without any specific manufacturer involvement. He speculates that the power and pervasiveness of such communities could become enormously amplified by the Internet’s capacity to support collaboration and distribution. While incremental user innovation has been known for many years it is the question

whether users can also drive radical innovations that is most debated (Lettl & Gemünden, 2005; Lettl, Herstatt, & Gemuenden, 2006).

Empirical research has studied user innovation in so disparate sectors as the medical sector (Shaw, 1985), the sports industry (Shah, 2000; Lüthje, 2002; Franke & Shah, 2003; Hienerth, 2004, 2006), and software development (von Hippel, 2001; Franke & Hippel, 2003; von Krogh, Spaeth, & Lakhani, 2003).

Recent research has focused on what commercial firms can do to motivate and capture such innovations and their related benefits. Learning and innovation efforts from which a firm may benefit need not necessarily be located within the organization, but may well reside in the consumer environment (Franke & Shah, 2003). These learning processes can, however, be structured, motivated, and partly organized by a commercial firm by organizing the infrastructure for consumers' interactive learning activities (Jeppesen & Molin, 2003; Jeppesen, 2005; Baldwin, Hienerth, & von Hippel, 2006; Hienerth, 2006). But user-driven innovation does not only benefit firms. It also creates public goods as well as specific benefits for the involved users (Harhoff, Henkel, & von Hippel, 2003; Henkel & Hippel, 2004). Since 2005 the Danish Government has made support of “user-driven innovation” a national priority, launching a particular program to build the abilities of Danish companies to change on user generated knowledge.

IT company Intel provides an example of user-driven innovation in the 1990's with the launch of two in-house departments implementing concrete product innovations and long-term strategic implications directly derived from user-obtained knowledge.

### **Exploiting Entrepreneurial Opportunities**

For a long time research of entrepreneurship has been part of either economic research or business strategy research. It is only over the past two decades that entrepreneurship has emerged as its own field of research. It is thus not very surprising that the exact definition and focus of this field is still debated among its members (Bruyat & Julien, 2000; Shane & Venkataraman, 2000; Low, 2001; Ucbasaran, Westhead, & Wright, 2001).

For this report entrepreneurship shall be defined as the discovery and profitable exploitation of (so-far unrealised) opportunities to create new competitive space by generating market disequilibria (Stevenson & Gumpert, 1985; Drucker, 1986; Shane & Venkataraman, 2000). An entrepreneurial opportunity allows the generation of entrepreneurial profits. However, as Schumpeter (1962 [1934]: 133) explains, this profit is only temporary. Once an entrepreneurial venture has been successful, other market players are likely to follow the example, thereby competing away the entrepreneurial profit. At this point most entrepreneurial enterprises become just another optimizing firm, unless they can identify a new entrepreneurial opportunity and exploit it.

Within this view it is the entrepreneurial opportunity (its identification, selection, and implementation) that is at the heart of entrepreneurship research. It is true that small businesses or start-ups are well placed to realize entrepreneurial opportunities; however, this is no constitutive condition. On the contrary, multinational corporations (MNC) are as capable of identifying entrepreneurial opportunities as are small businesses. If entrepreneurial opportunities are realized within an existing organization one often speaks of internal corporate venturing or of intrapreneurship (Burgelman, 1983; Kuratko, Montagno, & Hornsby, 1990; Antoncic & Hisrich, 2001).

### **The Role of the Entrepreneur**

Another research focus is on the enterprising individual, the entrepreneur, who is responsible for the discovery and exploitation of profitable opportunities. Penrose describes entrepreneurs as having "a psychological predisposition on the part of the individuals to take a chance in the hope of gain, and, in particular, to commit effort and resources to speculative activity" (Penrose, 1959: 33). However, the belief of conventional wisdom that it is usually one entrepreneur who can single-handedly identify, implement and exploit a valuable opportunity is probably as far-fetched as the assumption that the CEO alone can make or break a corporation. There are undoubtedly examples of strong personalities for whom this has been the case; however, in many circumstances entrepreneurial accomplishments are much more likely to be the result of

teamwork rather than the action of one individual (Kamm & Shuman, 1990; Ucbasaran, Westhead, & Wright, 2001: 60).

Although it is safe to assume that profits are a strong motivation for most entrepreneurs, research indicates that other motives such as independence, control of ones own destiny, the need for admiration (Kets de Vries, 1985, 1996, 1997), and issues such as psychic benefits or the availability of alternative employment opportunities (Gimeno, Folta, Cooper, & Woo, 1997) are also present. As shall be discussed in this report, the pursuit of social goals can also be a strong motivation.

A final aspect of entrepreneurship research concerns the question of organizational form and the access to capital. Some scholars identify gaps in financing as an important reason for closure, accounting for the fact that the vast majority of start-up firms actually fail (Amit, Brander, & Zott, 2000).

### **Institutional Entrepreneurship**

The term “institutional entrepreneurship” was introduced by DiMaggio (1988) as means to describe how actors can shape institutions even within the constraints they face. Institutional entrepreneurs initially are in conflict with established institutions but through their actions contribute towards changing them eventually (Lawrence, 1999; Garud, Jain, & Kumaraswamy, 2002; Dorado, 2005). In their literature review Leca, Battilana and Boxenbaum (2005) identify four key research questions about institutional entrepreneurs addressed in prior publications: What motivates them? Do they act intentionally? What type of change do they implement? How do they succeed in the face of institutional constraints?

Examples of entrepreneurial start-ups are plenty. The following examples provide a basis to separate entrepreneurs and intrapreneurs. Well-known examples include Starbucks, where entrepreneur Howard Schulz identified an opportunity to take over and extend three coffee shops to a global scale operation. An intrapreneurial example is provided by 3M launching the Post-it product after one employee past on the concept idea to another employee who developed the actual product features. Every step of the innovation

process happened within 3M, which eventually benefited from the global success of the product.

### **PART III: CSR AND INNOVATION – WHAT IS IT?**

Literature bringing together CSR and innovation has emerged gradually over the past decade. One interpretation of “social innovation” can refer to improvements in the CSR process. Examples could be improved social reporting tools or CSR management systems. In this review we do, however, not consider these kinds of improvements and instead focus mainly on product related social innovation. In the following we will discuss some of the main themes standing out from literature. Broadly speaking there are two schools of thought: The first line of publications deals with innovations aiming at social improvements (i.e. health, education, community development). Here the term social innovation can refer to product innovations with a social purpose. A subgroup of these types of innovations concerns “Base of the Pyramid” thinking. Social innovation is also used to refer to the process of starting and improving social enterprises. A second group of authors put environmental innovation at the heart of their work. These literature contributions have coalesced around the theme of eco-innovation, which more recently has spawned the discipline of clean-technology venturing.

#### **Corporate Social Innovation**

The term “corporate social innovation” was first introduced by Rosabeth Moss Kanter (1999: 125) who argues that firms should use social issues as a learning laboratory for identifying unmet needs and for developing solutions that create new markets. She describes, for example, BankBoston’s effort in setting up a Community Bank, which has eventually evolved into a new market for the bank. Similarly Bell Atlantic has equipped schools with HDSL computers, in the process learning a lot about how to use and

market this new technology. The term corporate social innovation is increasingly taken up by practitioners. Patrick Cescau CEO of Unilever for example defines corporate social innovation as a way of "finding new products and services that meet not only the functional needs of consumers for tasty food or clean clothes but also their wider aspirations as citizens."(cited in Webb, 2007) However, as pointed out by Hockerts (2008), most firms remain focused on CSR as a tool to reduce risks and operational cost. In his study of twelve multinationals he finds that only firms with very high social performance rankings think about CSR as a means to drive product innovation. He proposes that corporate social innovation requires the creation of knowledge structures that result from investments in corporate social performance. Examples for such scripts could be CSR management and communication tools (i.e. Kuhndt, Tunçer, & Liedtke, 2003; Seuring, 2004; Beske, Koplin, & Seuring, 2006; Burritt & Saka, 2006; Morsing, 2006; Perrini, 2006b; Von Hauff & Kleine, 2006; Vallentin, 2007) that in turn can initiate corporate learning processes (Müller & Siebenhüner, 2005).

### **Base of the Pyramid (BOP)**

An important subtheme of corporate social innovation is the focus on low-income markets. Prahalad and Hart (1999) talk in this context of the potential of the bottom or base of the pyramid (BOP). The BOP premise is that by focusing on the unmet needs of low-income populations firms can create profitable markets while also helping the poor address some of their most urgent needs (Christensen, Craig, & Hart, 2001; Prahalad & Hammond, 2002; Prahalad & Hart, 2002). Prahalad's most notable assumption is that BOP markets have to pay a "poverty premium"(Prahalad & Hammond, 2002: 8). This means that many poor have to pay more for products and services such as food, water, medication, credit, or telecommunication, than their middle or upper class compatriots. By using BOP thinking MNCs are believed to better target their design as well as improve the distribution so as to bring down the poverty premium. The Mexican cement manufacturer Cemex launched an initiative that enable low-income rural Mexican households to buy the cement to build a house. The purchase includes low-weekly payments and consultation and inspections from Cemex architects. The initiative allows a

great deal of flexibility and assistance to the poor, who would not have been able to construct a house at traditionally fluctuating market prices.

### **Social Entrepreneurship**

The concept of social entrepreneurship has emerged in the late 1990s in the U.S. (Boschee, 1995; Henton, Melville, & Walesh, 1997; Bornstein, 1998; Dees, 1998b, a; Brinckerhoff, 2000; Dees, Emerson, & Economy, 2001a, b; Drayton, 2002), and the UK (Leadbeater, 1997; Warwick, 1997; Zadek & Thake, 1997; SSE, 2002). However, it has only recently reached the academic debate (Haugh, 2006; Light, 2006; Mair & Marti, 2006; Mair, Robinson, & Hockerts, 2006; Perrini, 2006a; Hockerts, 2007; Robinson, Blockson, & Robinson, 2007).

According to Hockerts it describes “the discovery and sustainable exploitation of opportunities to create public goods” (Hockerts, 2007: 422). This is usually done through the generation of disequilibria in market and non-market environments. Social Entrepreneurship can in some cases lead to the creation of social enterprises. These social ventures are hybrid organizations exhibiting characteristics of both the for-profit and not-for profit sector. Successful examples of social innovation often originate from social enterprises and firms thus can learn a lot from the NGO or voluntary sector (Hockerts, 2003). SustainAbility is an example of a value-driven for-profit organization specializing in sustainable business models. The company consults MNCs like Coca Cola, Ford, Nestlé and Nike in implementing sustainable business strategies.

### **Eco-Innovation**

The notion that sustainable development drives disruptive innovations has come quite naturally to the sustainability debate (Hockerts, 1999, 2003). Sustainability innovations (also called eco-innovations, eco-design, eco-preneurship, or cleantechology venturing) have been proposed as a source for "environmentally benign growth" (Dyllick, 1994: 60), as a "breakthrough discipline for innovation" (Fussler, 1996), as a "source of creative destruction" (Hart & Milstein, 1999: 23), as well as the beginning of the "next industrial

revolution" (Braungart & McDonough, 1998: 82; Lovins, Lovins, & Hawken, 1999: 1; Senge & Carstedt, 2001: 24), or a source for "the great leap downward" (Christensen, Craig, & Hart, 2001: 92). From this has emerged a large number of publications advancing management tools for furthering the creation of new markets through environmental innovation (Fussler, 1996; McDonough & Braungart, 2002b, a; Randelovic, O'Rourke, & Orsato, 2003; Wüstenhagen, 2003; Kolk & Pinkse, 2004; Cohen, Smith, & Mitchell, 2008).

In his seminal book on Eco-Innovation Fussler (1996) states that a majority of today's firms is not actively pursuing eco-innovations as a strategy to create market share. However, he does not believe that this "innovation lethargy" (Fussler, 1996: 9) will persist in the years to come. Using a number of anecdotal case studies he shows that innovative firms can succeed in driving ecological innovation profitably, not by following current customer demand but by creating future market space. This notion that firms can actively transform market structures so that they better support ecological innovations is also proposed by Dyllick (1994: 66; 1999) and particularly by Schneidewind (1998). Ecological innovation will happen both in large corporations, the ecological "Goliaths", and small start-ups, the ecological "Davids" (Wüstenhagen, 2003).

#### **PART IV: CSR AND INNOVATION – HOW DOES IT HAPPEN?**

In the following, the four levels of analysis introduced in part one will serve as foundation for further analysis of how CSR and innovation interlink and come together.

##### **Institutional Level: Innovation and Legitimacy**

At the institutional level, literature on innovation and CSR has mainly focused on standards-driven institutional entrepreneurship. Examples, include research work on the creation of the Global Compact, an institutional innovation aiming at creating a framework for reporting the social, environmental, and economic performance of firms (Etzion & Ferraro, 2006; Brown, de Jong, & Lessidrenska, 2007). As such the Global Compact aims to help firms attain and maintain legitimacy with society. Another empirical study is Boxenbaum's research of diversity management in Denmark in which she chronicles the evolution of this emerging institution (Boxenbaum, 2004). Typically such innovations can be qualified as sustaining since they aim at strengthening a firm's existing capabilities and market position.

##### **Individual Level: The Social Entrepreneur**

At the individual level social entrepreneurship focuses on persons driving social change and innovation. These social or civic entrepreneurs can be individual citizens, community activists (Swamy, 1990; Henton, Melville, & Walesh, 1997; Leadbeater, 1997; Thompson, Alvy, & Lees, 2000) or civil servants (Leadbeater, 2000; James, 2001) who use entrepreneurial spirit in order to reach social objectives. Bornstein defines a social entrepreneur as "a path-breaker with a powerful new idea, who combines visionary and real-world problem-solving creativity, who has a strong ethical fibre and who is 'totally possessed' by his or her vision for change." (Bornstein, 1998: 36) Mair and Noboa (2006) identify empathy, moral judgement, self-efficacy, and social support as the key aspects that distinguish social entrepreneurs. Although the motivation to build a viable business can be part of social entrepreneurship, many authors do not think this to be a necessary

condition. A real-life example of a social entrepreneur is Florence Nightingale, who was the founder of modern nursing. She established the first school for nurses and fought to improve hospital conditions balancing an innovative drive and a passion for social improvements.

### **Organizational level: Stakeholder-driven Innovation**

While there is a growing literature stream on user-driven innovation there exists so far very little research on how innovation can be driven by other stakeholders besides users and consumers. Empirical examples, for stakeholder-driven innovation include the role of Greenpeace in developing and marketing the Greenfreeze technology (Stafford & Hartman, 2001; Matsumoto, 2002; Stafford, Hartman, & Liang, 2003) and in launching the fuel efficient SmILE vehicle (Plante, 1999), which Neuner calls a case of “collective prototyping” (Neuner, 2000).

Another example of activist-driven innovation concerns the fair trade movement which was initiated and launched by activist NGOs (Tallontire, 2000; Hockerts, 2006). Drawing on church groups, developmental charities, and activist networks fair trade has matured from a non-profit start-up idea into a profitable business proposition.

The Danish start-up company MyC4, a provider of online peer-to-peer microfinance lending in Africa is another example, for stakeholder driven innovation. Rather than basing its innovation process on in house development the firm is sharing the innovation process with all types of stakeholders. It thus includes both investors and lenders in the process of developing its business processes. More important MyC4 offers the possibilities so called providers to suggest micro-entrepreneurs leaving the setting of interest rates and transaction costs to the providers.

### **Global level: Sustainability Innovation**

At the global level much attention has been paid to the role venture capital (VC) plays in promoting sustainability innovation. The term clean technology venture capital has been introduced in order to delimit this new type of innovation from earlier environmental

technology or "green tech" investments popularized in the 1970's and 80's. The latter were mainly end-of-pipe solutions that strongly relied on particular legislation support. Cleantech on the other hand is meant to denote new technology and related business models offering competitive returns for investors and customers while providing solutions to global challenges through breakthrough product innovation. Cleantech venturing is thus driven by two main forces: technology and competitiveness which both are superimposed on certain environmental or social problems in order to generate new ideas. Whereas, stakeholder-driven innovation is very outwards oriented, cleantech or sustainability innovation uses technology and traditional innovation mechanisms.

## **PART V: INTERNATIONAL SOCIAL INNOVATION BRANDS**

Social innovation takes many forms especially in a global context. In order to grasp the different levels and forms of social innovation the following examples will serve as inspiration.

### **ABN AMRO**

ABN AMRO is a Dutch corporation working in the financial service industry. It was acquired in 2007 by a consortium of three European banks, Royal Bank of Scotland Group, Fortis, and Banco Santander. Before this take over, ABN AMRO had initiated a large scale acquisition scheme in Brazil in 1998. The take over of several major Brazilian banks resulted in the establishment of Banco ABN AMRO Real. This new consortium took some pioneering initiatives like the establishment of a new social-environmental policy when making decisions on loans, the creation of the Real MicroCrédito, which provided financing for small business and entrepreneurs, and the implementation of the Ethical Fund, which was the first Social Responsible Investment fund in Brazil. These initiatives were primarily led as a first mover within the Brazilian market, and introduced in a market context with little previous experience in social banking practices. (<http://www.corporates.abnamro.com/corporates/docs/country/brazil.jsp>)

### **Electricité de France**

The French electricity company focuses on electricity access in developing parts of the world. The initiative, Energy Access Programme through Rural Electricity and Services Companies, has helped bringing electricity to rural areas of Mali, Morocco and South Africa, which would have been otherwise 'off the grid.' EDF has brought electricity to 800,000 people and the 2010 goal is one million people. EDF considers this 'a drop in the ocean' but emphasizes the difference they make in these specific countries. Around 8-10 per cent of electricity is provided through this initiative, affecting a lot of people and businesses within the region. One of the projects in Morocco is called Temasol and has

provided solar energy for more than 20,000 households in rural areas. Temasol has undertaken a pilot project of delivering drinking water to the same households, while at the same time extending operations to other parts of the country. The initiatives are innovating both in terms of social capacity building, while at the same time having a low environmental impact. It is an important first step, and a basis for other people to further develop infrastructure in these communities. The presence in these markets has allowed the company to innovate social schemes further in areas of housing, employment and education. (<http://knowledge.insead.edu/bottompyramid.cfm>)

### **Essilor International**

Social innovation in the French company is realized through value-led innovation systems and Base of the pyramid activities. Essilor International has developed both manufacturing and distribution systems in rural India for optical lenses. The initiative was undertaken in the absence of adequate eye care facilities, which resulted in very low usage of spectacles. Uncorrected refractive error is one of the major causes of blindness, which if detected and corrected, would give a fresh lease of life to individuals. In 2004, Essilor India established a Rural Marketing Division. Access was even more important than costs so innovation within both manufacturing and distribution was urgent. After an initial study of the situation, Essilor realized that the lack of consumption of spectacles was connected to a lack of product access. Essilor has now developed a system of mobile low cost testing in rural areas as a means to reach the remote, rural population of India and manufacture cheap, affordable products through a steep learning curve and immense scale in production. (<http://knowledge.insead.edu/bottompyramid.cfm>)

### **Novo Nordisk**

Stakeholder-driven innovation is at the core of social innovation in Novo Nordisk. Several programmes have been initiated during the past decade, all with global perspectives and growth potential. Novo Nordisk has undertaken a shift from an internal focus to a reflective view through a corporate history and culture that lays the foundation

for its values-based and holistic approach to doing business. By establishing the link between health as a driver of wealth, it has been possible to pursue Triple Bottom Line strategies in a way that increasingly gets at the heart of core business processes – in the markets, as well as in the corporate functions and governance mechanisms. The approach is shaped through extensive stakeholder engagement embedded in organisational behaviour and business operations. An example of these stakeholder-driven initiatives is the DAWN programme, the largest-ever, global survey to uncover diabetes attitudes, wishes and needs. The study focuses on the person behind the disease and is aimed to uncover the psychosocial aspects of diabetes. The DAWN programme taught all parties involved, that the patients also need mental encouragement and positive guidance empowering them to take charge of their own health. Such innovation in public health promotion activities help effectively reduce the burden of diseases such as diabetes. Furthermore, Novo Nordisk is driving National Diabetes Programmes to educate stakeholders as well as actively supporting the growing international advocacy platform to put chronic disease prevention on the political agenda. One such initiative is the Oxford Health Alliance. ([http://annualreport.novonordisk.com/images/2006/PDFs/Lise%20Kingo\\_InaugurationSpeech.pdf](http://annualreport.novonordisk.com/images/2006/PDFs/Lise%20Kingo_InaugurationSpeech.pdf))

### **Philips**

The Green Flagships project at Philips is a gathering and quantitative measuring of the best lighting products. To be considered a Green Flagship, a product must first undergo a divisional EcoDesign procedure. Next, the product or product family is investigated in at least three of the six Green Focal Areas. These Green Focal Areas consist of Energy Efficiency, Recyclability, Lifetime Reliability, Packaging, Hazardous Substances and Weight. Based on this analysis, the product or product family must be proven to offer at least 10% improved environmental performance in at least one Green Focal Area compared to a predecessor or competitive product, and the overall lifecycle score must be equal or better. So while many products may be “green”, only the top Eco-designed products achieve Green Flagship status. A Philips Green Flagship product is a best

environmental choice and a product that either has the best environmental performance in the market, is the most innovative environmental friendly product in its portfolio, or is the best environmental solution in its application area. The development of Green Energy has experienced a major boom within the last decade. The labelling of green energy “cleantech” is increasingly attracting finance from both venture capital and MNCs. The Green Flagship label is an example of this environmental progress. (<http://www.philips.com/about/sustainability/greenproducts/index.page>)

### **Procter & Gamble**

Procter & Gamble provides an example of a social innovative product that failed to be marketed for profit. The case is a water purification system called PUR, which P&G developed in collaboration with the US Centre for Disease Control for commercial markets, targeting low income consumers. The product had clear social benefits, providing clean drinking water for households in places where the health risks of untreated drinking water are high, especially for children. After three years of market tests though, PUR was looking like a commercial failure. Many other firms would have closed down the project, but P&G instead moved PUR to its corporate sustainability department, where focus no longer relied solely on making a profit. Since 2003, P&G has sold the product at cost and worked in partnership with non-profit organisations, who distribute the product through their development and humanitarian relief networks. However, by using the marketplace P&G felt they could relieve people at a global level whereas philanthropic activity would not be as effective. Using social marketing models by collaborating with NGOs created greater impact than commercial marketing. (<http://www.purwater.com/>)

### **Telenor**

In 1997 Telenor initiated a joint venture between Telenor and Grameen Bank. The partnership led to the formation of two separate organizations, GrameenPhone and GrameenTelecom. It was operated by experienced Telenor managers with a strategic

objective to maximize financial returns; Grameen- Telecom was set up as the administrative interface to the existing Grameen Bank. This development bank, founded by Muhammad Yunus in 1976, provides microfinance for millions of poor people in the more than 60,000 rural villages throughout Bangladesh. As such, Telenor could benefit from market access and distribution systems and Grameen could introduce new types of product utilization into their business model. Furthermore, it provided Telenor with effective selection methods of phone owners and payment methods by using the experience of the Grameen Bank. The business model is build around a high degree of social interactivity in rural villages, where people use the new systems both to enrich their private communication facility and enhance business capabilities. (The Academy of Management Perspectives, vol. 21, number 4 (2007) pp 49-63)

### **TrygVesta**

TrygVesta strives to create innovations that make a difference for individuals and society in general using people with backgrounds in humanistic disciplines such as philosophy, theatre science, music and design in addition to the classical economical and technological disciplines. With the creation of their Business Lab focusing on Corporate Social Innovation, TrygVesta is launching incubator programmes; among these the Corporate Venturing project, which helps the creation of new ventures that build on socially innovative ideas. The natural interest in Social Innovation by TrygVesta is created through the risk sharing between the company and customers in the insurance industry. It is a social contract that connects the actors, where socially innovative schemes are generating value for both TrygVesta and customers. This process is fundamental to success since it requires acceptance and support from all parties involved. ([http://www.businesslab.dk/index.php?option=com\\_content&task=view&id=56&Itemid=55](http://www.businesslab.dk/index.php?option=com_content&task=view&id=56&Itemid=55))

## Unilever

Unilever defines their social innovation as utilizing consumer concerns about social and environmental issues. These provide opportunities for brands to connect with their consumers at a deeper level and, in doing so, gain competitive and sales advantage through cross-sector partnerships. This allows Unilever to do business and tackle social problems at the same time. Unilever focuses on the emerging markets. To achieve optimal results for both the company and local societal development, local markets must teach and change Unilever, not the other way around. Exploiting local strengths instead of trying to overcome local weaknesses is at the core of business activities. An example of the social innovation initiatives at Unilever is the Lifebuoy soap to help reduce child mortality of diarrhoea. Obstacles faced especially in India are illiteracy, rural masses not reached by mass-media, and perceptions that if hands *look* clean they *are* clean. To overcome these obstacles, Unilever has initiated the largest rural health and hygiene education programme ever undertaken in India. Education teams are visiting communities and schools to reach the broad masses. In order to help low income households the soap is sold in 18-gram bars, enough for one person to wash their hands once a day for 10 weeks. Another project is the “Shakri”, which deals with reaching small Indian villages with less than 2,000 people. Lack of retail distribution networks to reach the 500,000 smaller villages brought innovative thinking at the core of strategy. The solution was recruiting women from these small villages to act as freelance direct sales operators. Cooperation between Unilever and many women’s self-help groups (Indian NGOs) provided training and education to these women and made them local entrepreneurs. The women typically doubled the household income tending to use the money on education for their children. Since 2000, Unilever has extended Shakri to cover 80,000 villages. There are many more product examples for instance in India, Indonesia and Brazil.

([http://www.unilever.com/Images/Beyond%20Corporate%20Responsibility%20-%20Social%20innovation%20and%20sustainable%20development%20as%20drivers%20of%20business%20growth\\_tcm13-95521.pdf](http://www.unilever.com/Images/Beyond%20Corporate%20Responsibility%20-%20Social%20innovation%20and%20sustainable%20development%20as%20drivers%20of%20business%20growth_tcm13-95521.pdf))

## CONCLUSIONS

So far very little is known about how social innovation happens and how we can encourage more of it. This literature review has aimed at providing more than just an enumeration of extant publications. By suggesting a logical framework (derived from Wood, 1991) to structure the different concepts used in literature we hope to advance towards a better understanding of the corporate social innovation process. One important insight that has emerged from our discussion is the fact that social innovation can emerge from four different levels of analysis.

In our analyses of corporate social innovation we will thus need to ask the following questions:

1. Which emerging institutions are driving and enabling social innovation? And how do innovators deal with rigidities created from extant institutions that hamper change?
2. What makes people perceive social innovation as both desirable and feasible? And what turns them into social entrepreneurs?
3. What role can and should stakeholders play in the innovation process and what are the pitfalls of such an inclusive approach?
4. What role does the source of financing play for social innovation and how does social innovation venturing attract investors?

These questions will be among those that we will put to the case studies to be conducted in the Nordic Centre on Corporate Responsibility (NCCR) in coordination with the Danish Commerce and Companies Agency (DCCA). All in all we plan to conduct fifteen cases studies in Denmark, Sweden, Norway, Finland, and Iceland with the goal of identifying CSR-driven innovation in the Nordic region. This literature review intends to provide the theoretical grounding of this empirical work.

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