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# EXPLORING THE FIT BETWEEN CSR AND INNOVATION

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## Abstract

An exploration of the fit or space between CSR and innovation is presented, based on the RESPONSE project, a 15-month study which involved 60 SMEs throughout Europe. The main practical output of the project was the Social Innovation model, yet a conceptual understanding of CSR and innovation is best advanced through the three hypotheses that constitute the conclusions of the project: H1) The diffusion of CSR should be modelled on the diffusion of innovation; H2) CSR implementation and innovation can be configured to form a virtuous circle; and H3) There is a maturity path towards true integration of CSR and innovation. These three hypotheses inform, respectively, on the background, results and development of the project. H1 is framed within the context of the original European Commission call and proposal; H2 ties in with the Social Innovation model; and H3 is discussed in the light of a short case involving a high-performing SME. Since the hypotheses were the result of the project, we do not attempt to prove them here, but discuss their significance, with the idea that further research and community development will fully evaluate their accuracy.

**Keywords:** Corporate social responsibility, innovation, small and medium-size enterprises, SME.

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# EXPLORING THE FIT BETWEEN CSR AND INNOVATION

## Introduction

CSR and innovation have rarely been discussed in combination in the literature, at least not explicitly, although CSR is increasingly becoming a part of company discussions worldwide in the quest for greater value and competitiveness. Innovation is understood to be one of the main drivers of competitiveness, yet it is far from easy to achieve. Evidence suggests that "though innovative effort appears to be widespread, this does not translate directly into improved firm performance and, ultimately, greater profitability" (Hoffman et al., 1998). Furthermore, expectations have evolved, while customers and society have become extremely sensitive to the perceived ethical behaviour of organisations. To be successful and innovative today, companies must consider the social and environmental impact of their operational processes, stimulate employees to be creative, and collaborate with their customers, suppliers and other business partners in designing and developing new products and services.

Slowly but surely, the view that equates innovation exclusively with high technology and new products is being abandoned and innovation is at last coming to be understood as a broad, continuous, systematic activity that takes place throughout the enterprise (Sawhney, Wolcott, and Arroniz, 2006; Hamel, 2006; Vila and MacGregor, 2007). However, such an understanding is still far from widespread and perhaps only practiced by highly mature organisations. Enterprises, particularly SMEs, need to start somewhere, often with a narrow, departmentalised view of innovation, such as NPD, or a view of innovation as being housed in the marketing function only. Narrow, departmentalised application has, of course, been the bugbear of the CSR field, too, with CSR sometimes manifesting itself as a reactive phenomenon tied to the company's public relations department. Over time, however, this notion evolves, becoming broader and more diffused throughout the company consciousness.

In this paper we present the RESPONSE project, in which we explored the relationship between innovation and CSR. Over a 15-month period, 60 SME executives were interviewed on-site, informal discussions were held, a literature analysis was conducted and models were developed. The aim of the project was to help SMEs add value to their business operations and at the same time behave more responsibly. We advance the understanding of the link between CSR and innovation by presenting and discussing three hypotheses, or explorations, that resulted from the project. The main practical output of the project was the Social

Innovation (CSR:I3) model, yet a conceptual understanding of CSR and innovation is best advanced through the following hypotheses: 1) The diffusion of CSR should be modelled on the diffusion of innovation; 2) CSR and innovation can be configured to form a virtuous circle; and 3) There is a maturity path towards true integration of CSR and innovation. Since these hypotheses were the outcome of the project, we do not attempt to prove them in this paper, but discuss their significance, with the idea that further research and community development will fully evaluate their accuracy.

In the next section ("Background"), we present the project context, state of the art and research methodology. In the following sections ("The challenge of mainstreaming CSR in SMEs", "Understanding CSR motivation and activity in SMEs", and "Identifying best practice and CSR: innovation champions"), we present the three hypotheses.

# Background

## Project context

The RESPONSE project was a 15-month investigation conducted by partners with a diverse and complimentary set of skills from Spain, UK and Italy. Funded by the "Mainstreaming CSR in SMEs" grant from DG Enterprise and Industry, the initial aim of the research was to show that corporate social responsibility may be seen not just as an additional cost for the enterprise, but as something that can add value, in our case through innovation. The main output of the research was the Social Innovation model (CSR:I3), which is discussed later in this paper.

To address European Commission aims and help mainstream CSR in SMEs the project exploited each partner's strengths. IESE Business School provided academic expertise and rigour in CSR. Cluster Conocimiento, an association of public and private entities in the Basque Country, provided expertise in clusters and networks, having previously developed a CSR network for SMEs. Network effects were also exploited by Politecnico Innovazione in Milan, which acts as the Innovation Relay Centre (IRC) for the Lombardy region. In its role as an IRC, Politecnico Innovazione has many years' experience of working with SMEs. Experience with SMEs is also at the core of the missions of the remaining two partners, the University of Strathclyde in Glasgow and the University of Girona. The aim, therefore, was to develop a model that is rigorous but practical, taking account of the reality of SMEs and the importance of building relationships or "social capital" (Fuller and Tian, 2006). To encourage ongoing development a network was formed around the initial participants, consisting of the 60 SMEs interviewed and other intermediary agencies, which can also reference the freely available teaching and training material produced to disseminate the model and research.[1]

## State of the art

To date little attention seems to have been paid to the space or fit between CSR and innovation. This is perhaps true only on an explicit level: very few published works explicitly discuss CSR in conjunction with innovation (e.g., Midttun, 2007). Implicitly, however, much work in each of the general domains of CSR and innovation has overlapped, as in the case of

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sustainable development (Carpenter and White, 2004). It is here that clues may be uncovered to advance an understanding of the specific fit between the two concepts. For example, sustainable design (and other related terms in the design field, such as design for re-use, design for environment/eco-design) looks at how designers may develop innovative solutions that take account of primarily environment-related issues and use a variety of tools and criteria to drive the innovation process at each stage. The design field offers other movements that address different facets of CSR: accessible design, or Design for All, looks at how designed products and services may be made more fit for use for a larger percentage of the population, with particular emphasis on the elderly and disabled. Much of this development can be traced back to the Social Design movement, advanced primarily by pioneers such as Buckminster Fuller and Victor Papanek. For many outside the field, design is merely a stylistic exercise, completed after innovation, yet it ought to be at the core. Design is essentially a structured creative process and although designers (in whatever guise, be they engineers or graphic artists) are not all that is needed for successful innovation, they have many of the skills and tools required to make innovation happen. Returning to the roots of social design, R. Buckminster Fuller was perhaps the first designer to actively address social issues, stating that, "making the world's available resources serve one hundred percent of an exploding population can only be accomplished by a boldly accelerated design revolution." Victor Papanek was a student of the work of Fuller and helped to develop the Social Design field (Papanek, 1985). He laid the foundations for the fields of Design for the Third World and Design for Older People, among others, believing that "designers and creative professionals have a responsibility and are able to cause real change in the world through good design." Social Design thinking therefore combines the development of human and social capital with the development of profitable new products and processes. Nigel Whiteley (1993) also made an important contribution to the field, advancing the work of Papanek and others by developing areas such as inclusive design, ethical manufacture and eco-design and sustainability. In the 1980s greater attention was given to the environment, yet only recently has sustainable design taken hold in the mass consciousness, moving beyond environmental issues to address social and economic needs as well. As a result of the recent focus on climate change, environmental issues may lead the way to a more responsible approach by business toward society in general. A contemporary contribution is Socially Responsible Design (SRD) (Davey et al., 2005). Building on existing design areas that overlap with areas of responsibility and sustainability such as Design for Environment, SRD takes an integrative approach to several existing design initiatives. The link with CSR is described as being the part of CSR that has an external focus; alternatively, SRD is described as "CSR in action". This is contrasted with the conventional view of CSR, built around financial reporting and management structures, which, the authors say, has a more internal focus. A key message is that an understanding and implementation of design is necessary in order for companies to include CSR in the production of the products, processes, environments and services that create their image in the marketplace. The SRD model involves eight areas (government, economic policy, fair trade, ecology, social inclusion, health, education and crime) which can be positively addressed through the use of design and which will contribute to a healthier social environment. The authors state that SRD "focuses attention on the products, environments, services and systems that can alleviate real world problems and improve quality of life."

From the CSR point of view, interest has focused increasingly on certain corporate actions and processes where companies have no choice but to innovate on several levels, including products (where they have to satisfy the demand for socially responsible products) and processes (where they must pay attention to the implications of social responsibility across the whole supply chain). Furthermore, legislation and environmental pressures have forced changes in production processes and in the use and recycling of used materials. The demand for free-trade products has also resulted in companies establishing agreements with NGOs in order to import and sell products from and to developing countries, including coffee and craft products. The involvement of disadvantaged social groups and the inclusion of the disabled has necessitated the design of appropriate production processes and the development of products adapted to such groups' limited mobility.

So what exactly is the relationship between CSR and innovation? Recent phenomena such as Open Innovation (Chesborough, 2003) have the concept of stakeholder dialogue at their core and therefore overlap strongly with one facet of CSR. However, linking the overall concept of CSR with the overall concept of innovation is not easy. In this paper we aim to establish some key overlapping points, which may serve as "scaffolding" to construct a stronger, more sustainable argument for real integration between the two areas, promoting academic dialogue and practical implementation. On the CSR side, if we examine the different perspectives from which CSR may be viewed, we find a limited amount of previous research exploring the benefits, be they economic (through market reputation, for example), political (through better legal awareness and compliance) or ethical (through recognizing the intrinsic worth of values and taking moral considerations seriously). Paine (2003), for example, mentions four areas that justify managers' taking a serious interest in values: risk management, organizational functioning, market positioning and corporate citizenship positioning. In sum, the multiple facets of CSR have been discussed with varying degrees of detail and justification.

There is, of course, a valid argument that the exact semantics of any approach are not as important as action. We share this view (see Fontrodona, 2006). For us, establishing the link between CSR and innovation is not a means of semantic clarification. Rather, it is a means of uncovering clues for better strategy design and policy formulation in organisations, in order to leverage the recent increase in awareness and motivation and advance organisations' actual CSR and innovation performance.

## Research methodology

Given the lack of an advanced knowledge base on CSR and innovation, our research was exploratory. It was developed through case studies, perhaps more accurately described as semi-structured "discussions", in the four European regions in which the project partners were based (Catalonia, the Basque Country, Lombardy and the West of Scotland; see Figure 1 below). The overall research methodology is presented in Table 1.
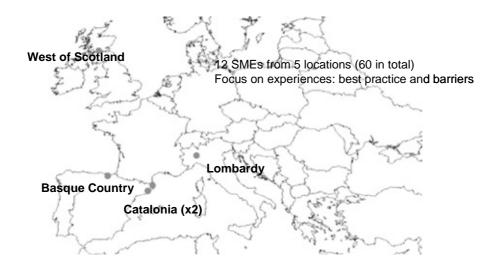
## Figure 1

Project partner locations and focus



West of Scotland

12 SMEs from 5 locations (60 in total)
Focus on experiences: best practice and barriers

Lombardy

Basque Country

Catalonia (x2)

## Table 1

RESPONSE research methodology

| Industrial studies: stage | Preliminary interviews | Business cases | Sustainable network |
|---|---|---|---|
| Research focus | Descriptive: what do SMEs currently do regarding CSR and innovation? | Prescriptive: How can we improve current practice based on what we know? Experimental testing and evaluation | Prescriptive: scaling up support tools and methods based on previous evaluation stage |
| Number of companies | 60 (12 in each location) | 8 (2 in each location) | As many as possible |

For interviewing purposes we produced two questionnaires: a simple quantitative questionnaire (Questionnaire A), which identified basic innovation and CSR activities; and a more detailed, qualitative questionnaire (Questionnaire B), which allowed the interviewer to probe more deeply into the results of Questionnaire A and served as a basis for open discussion. Questionnaire A also served as a screen to filter only those companies with at least an interest or profile in either CSR or innovation.
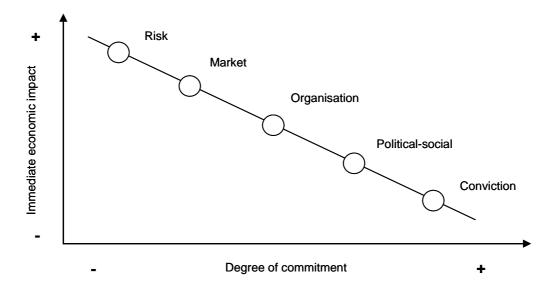
# The challenge of mainstreaming CSR in SMEs

The purpose of the European Commission's call to "mainstream CSR in European SMEs" and of the funding provided for the RESPONSE project is to make CSR uptake a voluntary process, instead of imposing a set of regulations. The goal is to effectively diffuse or "mainstream" CSR in SMEs, which account for over 66% of European employment. Our approach was to

demonstrate the link between CSR and innovation and conduct a broader examination of the means of mainstreaming CSR, considering the CSR "supply chain" or delivery mechanism. Much of the existing development in Europe related to mainstreaming is framed within a discussion on "scaling up." An example of the scale of the challenge is Denmark's big-budget People and Profit project, which aims to train 12,000 SME managers and employees, yet still only covers 2% of the workforce in Danish private companies. Existing networks and structures should therefore be exploited, together with a better understanding of what SMEs really need and how they are most influenced.

Regarding the uptake of CSR, we found that the SMEs in our sample had either a proactive or a reactive approach to CSR and innovation. The most successful companies were proactive in their approach and also, interestingly, had the highest level of CSR implementation. We cannot conclude, however, that implementing CSR necessarily leads to success, or not in every case: it may be that implementing CSR makes companies more successful and innovative, or it may be that successful companies implement CSR as a way of "putting something back." We also argue that proactive CSR is easier than proactive innovation. CSR adoption can be a starting point for proactive innovation and also for companies that want to improve their position in their industry but are generally risk-averse. Innovation tends to be risky, whereas CSR can be a means of reducing risk: companies often implement CSR as a means of reducing risks associated with legislation or stakeholders (see Figure 2 below). Although this is sometimes criticised as an incremental, short-term view of CSR, the important thing is to get companies started on the process. As we show later, once they have started, companies may quickly appreciate the benefits and start to implement longer-term CSR.

## Figure 2
Reasons for CSR. Adapted from Fontrodona (2005)



From this preliminary discussion we derive our first hypothesis, which is developed below.

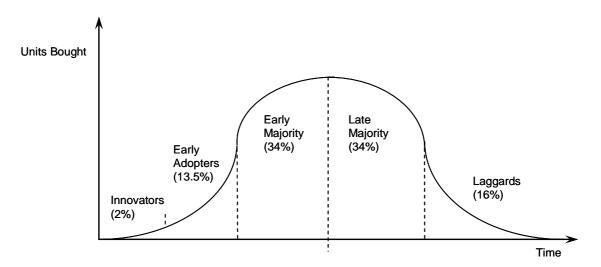# HYPOTHESIS 1: The diffusion of CSR should be modelled on the diffusion of innovation

The diffusion of innovation is a classic view of social systems (Rogers, 1962) that has been revisited in recent years (Moore, 1991, 2006), as we advance through an age of rapidly changing technology. The real challenge, however, should not be to diffuse more and more new products and services but to ensure that new products and services are more socially responsible and sustainable throughout their life cycle, from conception to disposal.

### Drawing on innovation diffusion theory to get to the CSR tipping point

We add to the discussion on "scaling up" with the following exploratory analysis of diffusion theory. We emphasise the exploratory nature of the discussion, but hope it may uncover clues for better future policy formulation. Diffusion theory looks at how innovations spread within a social system. According to Rogers, the "tipping point" is the point at which a trend "catches fire" and spreads exponentially through the population. Crucially, for most members of a social system the decision to adopt an innovation depends heavily on the decisions of others. This is reflected in our research, which showed the behaviour of both proactive and reactive firms. Reactive firms (the majority) implement CSR practices only once they see that the market leaders (proactive firms) have done so. In standard diffusion theory, adoption of an innovation speeds up once 10-25% of system members have adopted it. Assuming that a similar dynamic is at work in the diffusion of CSR, how do we get that initial 10-25% to lead the way? Here, we need to take a closer look at the dynamics of diffusion. Figure 3 below shows the classic bell curve of diffusion.

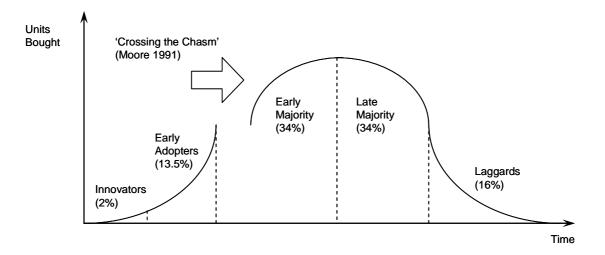## Figure 3
The diffusion curve and adopter classification



The classification shows five types of adopter groups, with the leaders classified as "innovators" and "early adopters." Based on this classical model, Moore (1991) presents a contemporary analysis for the information age, highlighting the difficulty encountered in the space between "early adopters" and "early majority." For many innovations this is a significant hurdle and

overcoming it is known as "crossing the chasm." Moore cites the examples of the Apple Newton PDA, which despite promising early sales failed to "cross over" to the mass market.

## Figure 4

Crossing the chasm in the diffusion curve



According to Rogers, the innovation decision is made through a cost-benefit analysis in which the main obstacle is uncertainty. In the RESPONSE project we found that one of the main barriers to CSR adoption in SMEs was the view that the costs outweigh the benefits, which is something we hope to address by linking CSR with innovation. Yet Moore states that the first two adopter groups have a very different perception from the "early majority." It may be, therefore, that a radically different approach is required after the initial adoption of CSR.

Examining the rate of diffusion, two major factors are at play: mass media and opinion leaders. The mass media rapidly spread knowledge of innovations to a large audience, yet this alone does not bring about real change. Opinion leaders strongly influence the rest of the social system and persuading opinion leaders is the easiest way to generate positive attitudes toward an innovation. A discussion of diffusion is therefore appropriate in an age of increasing speed of awareness. The Internet and online tools such as blogs, wikis and other web 2.0 social movements have changed the dynamics of many industries. An example is the news industry, which is struggling to compete with the rate at which breaking news appears on blogs "penned" by local amateur journalists, who may have witnessed the news at first hand. Such changes put traditional news agencies under even greater pressure to perform.

Rogers explains that the types of opinion leaders change agents should target will depend on the type of social system, i.e. whether the system tends to encourage change from system norms or whether it tends to maintain existing norms. Which of these two types (heterophilous and homophilous, in Rogers' terminology) a social system belongs to depends to a large extent on the diversity of the system's members and their attitude to change. This classification can be used to characterise different industrial sectors in Europe. The oil and gas industry, for example, has traditionally been seen as innovation-averse, while electronics is considered innovation-friendly. In highly diverse and innovation-accepting systems, says Rogers, change agents can concentrate on targeting the most elite and innovative opinion leaders, as the innovation will then trickle-down to non-elites. If an elite opinion leader is persuaded to adopt an innovation, the rest will exhibit excitement and readiness to adopt. In more traditional systems, by contrast,

the task is far more difficult. Change agents must target a wider group of opinion leaders, including some of the less elite, because innovations are less likely to trickle down. Opinion leaders are more likely to be regarded as suspicious and/or dismissed from their opinion leadership. In these types of systems attitudes are determined less by opinion leaders than by pre-existing norms. If we accept Rogers' theory for the diffusion of CSR, policy makers should focus first on the industries considered most diverse and most open to change and innovation. The more traditional industries may require heavier investment, targeting a broader sample of the population, and so may best be tackled after the more innovation-seeking industries have led the way. There may even be cross-sectoral benefits; that is, sectors traditionally opposed to change may see the benefits and even the risk-reducing effect of implementing CSR.

## Towards better policy

Successful efforts to diffuse an innovation therefore depend on the characteristics of the situation and involve a number of stages. To eliminate a deficit of awareness of an innovation, mass media channels are most appropriate. To change prevailing attitudes about an innovation, it is best to persuade opinion leaders. Further, what we find is that homophilous social systems are likely to frustrate change agents with their resistance to innovation. Only in heterophilous social systems is it relatively easy to push an innovation to the elusive tipping point.

Recent awareness raising by the European Commission and others seems to be having an effect, so the focus should now be on identifying opinion leaders and sectoral analysis. To date, the European Commission has focused on capacity building, in the form of new tools and methods, and awareness raising, so the hope is that change agents will have the necessary tools at their disposal to bring about change. We believe we have identified the model opinion leader or change agent for SMEs (at least in heterophilous systems), namely the proactive, outward-looking enterprise.

The proactive, outward-looking SMEs identified in the RESPONSE project were leaders in their market. As mentioned in the previous section, these leading companies had the highest level of CSR implementation. Evidence suggests that social innovation requires a proactive attitude. Melè (2001) states that the response by companies to social responsibility and sustainability range from inactive through reactive to interactive and proactive. Reactive approaches are of little value, as there is little time to respond to the rapid changes in society. A reactive attitude could be described as seizing opportunities as and when they arise (innovation) or responding to legislation (CSR), whereas a proactive stance requires a forward-looking and anticipatory mindset driven by a long-term CSR-based strategy. Leaders, or best practice firms, have a proactive approach to innovation. This is manifested, for example, in fulfilling customer demand before it materialises or at the very first sign of a change in demand. Proactivity is usually a characteristic of innovative firms, which do not wait for competitors or external pressures to surface but continuously strive to find and create breakthrough solutions. If other firms then see the potential benefits of such a proactive approach, they are more likely to follow these "opinion leaders" and move closer to the tipping point and true mainstreaming.

This is far from easy. Many more research questions are raised, yet the rapidly increasing body of knowledge on CSR practice in Europe may be exploited and integrated within this framework. For example, different types of systems (heterophilous and homophilous) can be linked to the argument for the implementation of geographical clusters, to show how diffusion may be accelerated and eventually reach the mass market. Opinion leaders may also be linked

to the concept of the supply chain, where large companies heavily influence the behaviour of their suppliers. So where is CSR on the innovation adoption curve today? It is probably at the innovators stage, maybe early adopters. It still has to "cross the chasm," so the community needs to be better prepared to make the leap.

## Understanding CSR motivation and activity in SMEs

Although there are many definitions of CSR, we take a pragmatic approach and define CSR simply as positive social, environmental and economic actions in the following five areas: environment, community, customers, supply chain and employees. Table 2 details the main CSR activities carried out by the companies in our sample.

## Table 2
CSR classification and sample activities

| Environmental | Supply chain/business-to-business |
|---|---|
| ISO14001<br>Waste minimisation, re-use and recycling schemes<br>Reduction of use of harmful chemicals<br>Reduction of atmospheric emissions<br>Use of energy from renewable sources<br>Membership of environmental organisations<br>Investment in new technology<br>Environmental reporting<br>Award-winning environmental schemes | Open house policy for customers, suppliers and competitors to look around<br>Directorship of business associations<br>Development of long-term partnerships with customers and suppliers<br>Supplier learning schemes<br>Measurement of key performance indicators and feedback to staff, customers and suppliers<br>Winners of industry awards, e.g., world class manufacturing or service industry excellence<br>Support and encouragement for suppliers to become more socially responsible<br>Participation in industry best practice programmes<br>ISO9001 quality standard |
| **Employees** | **Community/society** |
| Investors in people<br>Flat management structures<br>Creation of good work-life balance and family-friendly employment<br>Employee newsletters<br>Social events for staff<br>Employees sent to developing countries to undertake community projects<br>Award-winning training and development programmes for employees<br>Employment of older and disabled people<br>One-to-one mentoring of employees<br>360° appraisal schemes<br>Higher salaries<br>Idea suggestion schemes | Work with local schools on projects, e.g., working with children with learning difficulties<br>Donation of percentage of profits to charity/donations to local cultural and sporting events<br>Support for local homeless people<br>Sponsorship of local sports teams<br>Involvement in awards schemes for young people<br>Time banks for employees to work in the community<br>Social auditing<br>Employment of people from the local community<br>Work on community projects in developing countries<br>Work experience placements<br>Award-winning community engagement programmes |
| **Customers** | |
| Design for all<br>Ecodesign<br>Direct relation. Design involvement.<br>Training programmes.<br>Open door day | |

Examining the type of CSR which enterprises engaged in, we found the most common (30%) to be employee activities. One advantage that SMEs have over larger business is the fact that employees may feel more visible and better valued as part of a smaller workforce. Given the right initiatives, this can lead to a more multi-skilled, more highly motivated workforce, with each employee playing a part in value creation. The most popular employee activity was the Investors in People accreditation, which involves many other activities, including training and suggestion schemes. The next most popular category is involvement with the local community, found in over a quarter of cases (26%). This is perhaps not surprising, as many SMEs are family-owned businesses with a long history in the local area or were created by entrepreneurs with a guiding set of values. Activities such as employing local workers, making donations to local events and facilities, and partnerships with local schools and universities are commonplace. Environmental activities were found in 23% of the sample firms (e.g., implementation of ISO14001 and, in the case of a paper manufacturer, certification from the Forest Stewardship Council). The least popular categories were supply chain (14%) and customers (7%), indicating that the recent development of concepts such as co-innovation has still to take hold in many small companies, although it may be a currently untapped source of potential growth.

We also found that the perception of CSR and the level of CSR adoption vary depending on the size of the organisation, the industry in which it operates and its country of origin. It is too early to formulate conclusions in this area, although interesting points include the relatively high use of the EFQM model in the Basque Country and implementation of the ISO standards in engineering-based businesses and businesses in which health and safety is paramount. Additionally, in the construction industry there is greater awareness of innovation and responsible entrepreneurship due to a combination of stringent regulations and the underlying opportunity to trade in international markets. As a result, firms in this sector pay increasing attention to health and environmental safety issues.

In many ways, CSR is a more natural proposition for small companies, but it has to be acknowledged that CSR is fundamentally different for SMEs. As stated above, many companies implement CSR without viewing it as CSR, while others want to know more but lack the knowledge to implement a value-adding strategic approach. Overall, the main obstacles to CSR implementation are as follows.

**Lack of knowledge and awareness of CSR**: As there are many definitions, it is often confusing and companies undertake practices that are unsustainable because they lack the expertise for effective implementation. Some companies believe that CSR is a fad and will soon be replaced by something new. Accordingly, they are unwilling to invest in CSR, as it requires a long-term transformation.

**View that costs outweigh benefits**: Companies are still not convinced that implementing CSR can add value. This can be partly attributed to a lack of adequate metrics to show the value of the various aspects of CSR.

**People and time pressures**: Daily operational pressures result in a lack of integration of sustainable CSR policy. Part can be attributed to a lack of adequate tools and metrics, part to the lack of knowledge of how best to implement, and often *where* to implement, within the company.

In general, we have found that the current uptake of CSR in European SMEs (at least in our sample) is good. However, the focus should be on integrating the various activities and tying

them to the company strategy, this being the only way to generate real value. Many SMEs are eager to learn more about CSR, yet lack knowledge and become disillusioned with the poor results afforded by one-off isolated initiatives. Yet we found several model firms that are pro-active in their CSR and also highly innovative. While CSR is not easy for SMEs, innovation is even harder. For companies aiming for added value, CSR could be the gateway to a more innovative enterprise. For true mainstreaming of CSR, motivation should be closely examined. Many of the 23 million SMEs in Europe are guided by founding values that are not centred solely on monetary reward, yet showing these companies how CSR can make them more innovative and so add value will increase the chances of mainstreaming CSR.

We found several high-performing SMEs with an advanced CSR and innovation profile. An example is Solas, a high-growth enterprise from the Lombardy region. Solas produces paints and has reduced its environmental impact by using biocompatible vegetable and mineral raw materials, such as vegetable oils and resins. It has gained leadership through environmental-based CSR (including reducing energy consumption and producing 100% biodegradable waste), which is tied closely to the company strategy and quest for differentiation and value. This has resulted in enhanced revenues, visibility and brand image. Other companies have implemented CSR unknowingly, or at least exclusively as a means of increasing competitiveness. JRG group, an independent manufacturing company based in Scotland, carries out CSR activities that have become an essential source of information and innovation, including building good relationships and collaborating with customers and suppliers. These relationships have led the organisation to establish itself as a "one-stop shop" through the creation of an entirely new range of products.

In all the companies in our sample we found that the main motivation was either values or the search for value. That is, we have either a CSR-centric motivation to CSR implementation or an innovation-centric approach. Furthermore, to effectively mainstream CSR we believe it is necessary to focus on innovation and the search for value. CSR offers a framework for companies that want to innovate (sustainably and with less risk). This leads us to our second hypothesis, which derives the Social Innovation model produced during the project:

## HYPOTHESIS 2: Innovation and CSR can be configured to form a virtuous circle

In order to successfully promote proactivity we require an understanding of the fit between CSR and innovation. Based on the research we have done, we conclude that there is a virtuous circle of CSR and innovation, as represented in Figure 5 below. SMEs may be driven either by *values* or by the search for *value*. That is, either a CSR-centric motivation to CSR implementation or an innovation-centric approach. In terms of our CSR typology, value is arguably more closely linked to the "employees", "supply chain" and "customers" categories of CSR, while values are linked more to the "community" and "environment" categories. Even though CSR may not be automatically considered in the search for value, we believe it leads to a more sustainable, less risky approach through taking closer account of employee, customer and supply chain actions.

**Figure 5**

CSR elements according to value and values



VALUE driven
- employees
- customers
- supply chain

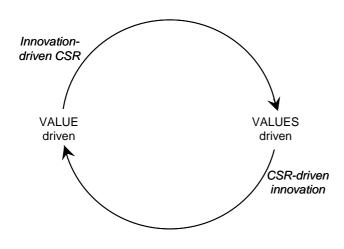VALUES
driven
- community
- environment

Our logic dictates that there is more than just CSR-driven innovation, which is values-driven. For CSR to mainstream there has to be a bi-directional system for real sustainability. But where is the starting point? Although many SMEs are formed with a social responsibility-related founding mission, we believe the majority of European SMEs will respond to a call for increased value creation. We therefore need not even mention CSR. In many cases, the resource-stretched small enterprise does not have the time, or even the mental capacity, to consider yet another business approach. Indeed, many SMEs in our study believed that CSR was merely the latest business "fad." Simply put, we appeal to their need to be more competitive, through innovation, and give them a CSR framework to do so. Essentially, we convert existing CSR theory into an innovation model, one that may best be described as social (or even sustainable) innovation. The final key concept to highlight is that we need to formalise this (social) innovation process within the enterprise. Many small companies already do the right things, but their performance is compromised by a lack of formal organisation and control.

## CSR-driven innovation and innovation-driven CSR

This bi-directional system may be defined as CSR-driven innovation and innovation-driven CSR (see Figure 6 below).

## Figure 6

The virtuous circle of CSR and innovation



Research has recently begun in Denmark[2] centred on CSR-driven innovation. CSR-driven innovation has as its end result products and services that have some sort of social purpose. It is driven by values for the creation of social products and services. In our model we define these social products and services as being in the areas of Design against crime, eco-design, and Design for All. Innovation-driven CSR, on the other hand, may be more aligned with creating social processes and is driven by value. The end result may not have a solely social rationale, yet the way that the output was developed, through, for example, employee or supplier actions, is more socially responsible. We can say that CSR-driven innovation is about "doing the *right* things," while innovation-driven CSR is about "doing things *right*."
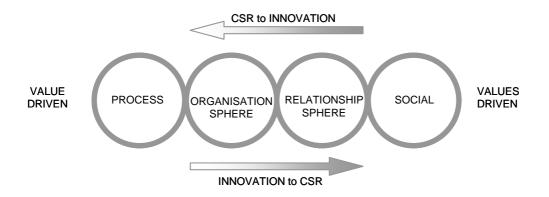
## Figure 7

CSR-driven innovation and innovation-driven CSR



Such an understanding necessitates an awareness of the tools and methods available in each area that will facilitate the right process. We have attempted to address the relative poverty of the CSR field (at least in comparison to innovation) by developing the RESPONSE Social Innovation (CSR:I) model. On a basic level, the model (see Figure 8 below) is developed from the virtuous circle concept. The reality of the bi-directional system is shown through the four spheres: social, relationship, organisation and process.

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[2] CSR-driven innovation managed by the Danish Companies and Commerce Agency (www.csrinnovation.dk).
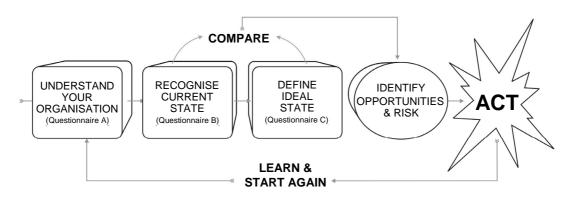
## Figure 8

The RESPONSE Social Innovation model



The model is specified by completing a series of questionnaires (see Figure 9 below) which enable an organisation to define its current state, identify areas of opportunity and establish an action plan to undertake corrective actions. It is therefore both descriptive (or diagnostic) and prescriptive and can be used in auditing or strategy design situations. However, it is essential that users be aware of the motivation behind the organisation before undertaking the analysis. This therefore defines the starting point for the model. The questionnaire is divided into three sections and the procedure for using the toolkit is as follows:

## Figure 9

Social Innovation model process



- Section A – The purpose of this questionnaire is to help the individuals undertaking the study to gain a better understanding of their organisation. The participants will be able to produce a more accurate diagnosis if they identify the organisation's unspoken goals by recognising customer requirements and core organisational competencies and understanding the market and the organisation's long-term objectives.

- Section B – This questionnaire was designed as a diagnostic tool to help the user establish the current state of the organisation as regards CSR. It will enable the user to assess the capacity of the organisation to produce socially responsible products, observe the existing relationship with internal and external stakeholders and identify the organisation's attitude towards CSR, i.e. proactive or reactive, inward-looking or outward-looking.

- Section C – By completing this last questionnaire the users will be able to define the ideal state of the organisation. This is done by assessing the strategic importance of organisational processes, identifying the organisation's attitude towards innovation and recognising the strategic importance of key stakeholders.

A more detailed version of the four spheres which detail the model and show the results of the questionnaires can be found in the appendix.
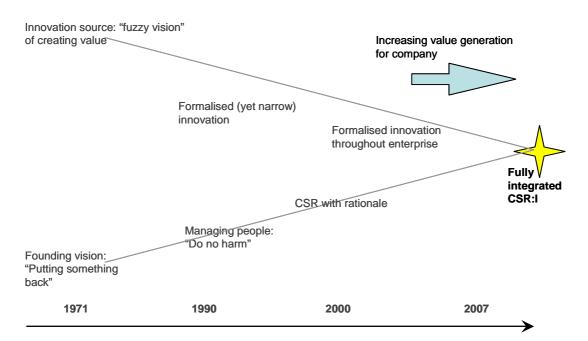
# Identifying best practice and CSR: Innovation champions

An examination of mainstreaming necessitates an examination of maturity. Different firms, and indeed different European regions, may be at different points along the diffusion curve, or simply at different stages of development or CSR understanding and implementation. Some of the most valuable insights generated in the RESPONSE project came from identifying a number of "champion" SMEs which had a highly developed approach to both CSR and innovation and whose experiences are instructive. One such "champion" is the Catalan firm Metalquimia.

Metalquimia was founded in the northern Catalan town of Besalú in 1971 and is today a world leader in meat-processing machinery, specifically machinery for producing cured meats such as ham and sausage. It is still a family-run business and currently employs 100 people in its design and research centre (and headquarters) in Girona and its production plant in nearby Figueres. It has a turnover of €18M, 90% of which comes from export markets. The company exports to over 60 countries worldwide. It is situated within a strong regional cluster (pork production in Girona), which offers opportunities for strategic alliances across the supply chain and has helped ensure stability and favourable local conditions. The company has been studied from a variety of angles in recent years (innovation evolution, family business and CSR) and is generally very mature in all areas. The evolution towards this maturity is shown in Figure 10 below.

## Figure 10

Key steps in the evolution of Metalquimia

As shown, the company was founded on two disparate visions related to CSR and innovation, which could be viewed as romantic notions with little actual operational knowledge regarding how to achieve them. Over time, as knowledge has improved and through formalisation, particularly of the innovation process, the two concepts have converged. Today, CSR and innovation overlap in several areas, as discussed below, so that neither concept can be viewed in isolation from the other. Innovation is tightly tied to the overall strategic direction in the company. There are strategy plans for innovation and people management, within which CSR plays a large role. Talent capture is difficult, so strategic alliances and dedicated attention to and management of human capital are even more important than normal.

Metalquimia's business is highly mechanized and technical, with constant pressure for technological innovation. CSR has acted as a stabilizing factor in a rapidly changing environment and, through the company's focus on developing human capital, has been a source of competitive advantage. In an environment of rapid change (technological innovation is an important part of Metalquimia's core business and innovation management has gone through several accelerating change cycles in the past 30 years), CSR has been one of the constants. One interesting fact is the company's implementation of the lean manufacturing philosophy, which is aimed at minimising waste and provides the basis for continuous improvement, which is essential before any company, especially a small enterprise, can innovate.

The company is an extended family business and people are the key starting point for CSR to add value in the shortest term possible. Focus is placed on people growing as human beings, not just as professionals. The managing director, who is personally responsible for the management of the annual recreational activity plan, is a firm believer in being extremely open with the workforce, letting them know as much as possible about what is going on, even at the highest levels of the company. Employees are also more highly rewarded financially than in most private enterprises, with 20% of annual profits being distributed among the workforce. In many ways, the company operates like a small cooperative. Much of this, of course, is down to the personality and value system of the man in charge. The managing director is not interested in accumulating vast wealth, but says that he has enough for himself and his family ("I don't need a private jet"). It is open to question whether many of these structures would work in a much larger company, but we will soon see. These initiatives are largely responsible for the current annual growth of between 10% and 15%.
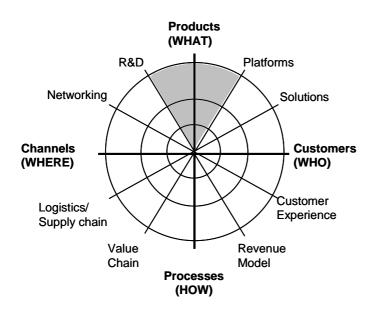
The implementation of CSR at Metalquimia is tied to innovation as a concept, with CSR activities having an innovation or value-adding rationale. For example, the company was one of the main contributors to Girona's new Auditorium and Conference Centre, where world-class business and cultural events now take place. There was an element of "putting something back", although having a world-class facility on the company's doorstep would potentially benefit the company in a business sense, too. Another example is Metalquimia's support for Catalan music, with compilation CDs of local music being offered to customers worldwide as gifts. Promotion of Catalonia is important, as also is the creative, innovative approach to traditional music, so as to give it a more universal appeal. This short case example provides us with our third and final hypothesis.

# HYPOTHESIS 3: There is a maturity path towards true CSR–Innovation integration

Nowadays, innovation is no longer equated exclusively with high-technology and/or new products, but is coming to be understood as a broad, continuous, systematic activity that takes place throughout the enterprise. Recent work advancing such a view includes Sawhney et al. (2007), who present the "radar of innovation" (see Figure 11 below), detailing 12 types of innovation to be tackled incrementally or radically; and Moore (2006), who has argued the case for different types of innovation focus along the life of the business cycle.
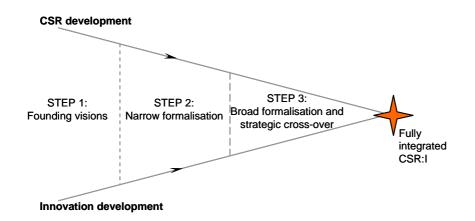
## Figure 11
Radar of innovation (adapted from Sawhney, 2007)



However, such a view is still far from widespread and perhaps is practiced only by highly mature organisations. Enterprises, particularly SMEs, need to start somewhere, often with a narrow, departmentalised view. A focus on product innovation was evident in the RESPONSE project for a number of reasons. First, the SMEs in our sample were mostly involved in product innovation, so product innovation was easier to capture and understand quickly. Secondly, we had expertise in the research team related to product design and innovation. Narrow or superficial application has of course been the bugbear of the CSR field, too, and CSR adoption has sometimes been a reactive phenomenon tied to the public relations department. On the positive side, this approach is becoming less common. A recent study on CSR actions in Europe has shown that future priority areas to be addressed by European companies are "mainstreaming CSR" and "innovation and entrepreneurship" (CSR Europe, 2006).

In Metalquimia, CSR and innovation are intertwined value-adding mechanisms at the core of the company's global competitive advantage. The founding vision for both areas may start far apart, with few ideas on how the two connect; as the vision develops, however, first with the implementation of a narrow, formalised view, then spreading throughout the company and beyond, the two areas converge and are bound together by key strategic actions. For example, responsible people management increases the company's creative capital, while CSR actions with a creative or business rationale add to the overall value of the enterprise. This generic view of Metalquimia's evolution and maturity is represented below in Figure 12.

# Figure 12

CSR: innovation maturity model



The story of Metalquimia shows that CSR and innovation have an opportunity to co-evolve in the enterprise, with better connectivity able to create greater value and sustainability in the long term. One of the keys is formalising the innovation process, which shows us the most probable application for the RESPONSE Social Innovation model. We can say that the tool is primarily for companies which want to innovate but do not have a highly formalised process (like Metalquimia in the mid-1970s) and may have had some experience of innovation implementation as a chaotic activity, with a high level of ideas generation but with much left to chance.

# Conclusion

This paper has presented three hypotheses or explorations on the link between CSR and innovation, discussed within the context of a European project focused on the mainstreaming of CSR in SMEs. The three hypotheses can be summarised in the keywords "diffusion", "values" and "maturity."

Hypothesis 1 stated that CSR diffusion should be viewed on an analogy with innovation diffusion. For diffusion, there are two main steps which inform policy formulation: awareness raising through mass media; and increasing adoption through the strategic use of change agents. Drawing on classic diffusion theory, it was shown that innovation-averse sectors will require greater investment for diffusion and that the "chasm" between early adopters and early majority presents a further challenge which calls for a dramatic change of approach. Suggestions for future work include taking an integrative view, with policy on push and pull innovations, in order to help companies "make the jump." Furthermore, looking at the concept of lead users may be useful, yet these are not the same as all end users, so when extending to stakeholders, there will be lead-stakeholders and non-lead stakeholders.

Hypothesis 2 states that there is a virtuous circle of innovation and CSR. The majority of enterprises will be driven by value, which represents a valid starting point for greater CSR implementation as long as the right roadmap is available. However, we need more CSR tools and methods to help develop understanding and implementation, while getting started with

incremental CSR should be encouraged and can lead eventually to radical innovation if an understanding of innovation change is evident.

Finally, Hypothesis 3 states that there is a maturity path towards true CSR-innovation integration. Maturity shows that innovation is more than new products and technologies and that opportunities abound in other areas. Yet SMEs need a roadmap to transition from narrow CSR and innovation application, as well as an understanding of how focus needs to change with time. Finally, CSR and innovation have an opportunity to co-evolve in the enterprise, with better connectivity able to create greater value and sustainability in the enterprise.

The RESPONSE Social Innovation model was developed on the basis of these three explorations. The key concept is that we do not appeal directly to social responsibility, but to the pursuit of value and, in particular, the notion of a more innovative firm. CSR is presented as an innovation process, in which small enterprises are often held back by the lack of formalisation and proactive behaviour. This model is for SMEs that want to transform innovation chaos into formalized, sustainable value creation across the enterprise. We believe that CSR can act as an effective delivery mechanism for small company value generation in the 21$^{st}$ century and that, for innovation, SMEs should pro-activate their CSR.

## Acknowledgements

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