

# HOW CAN CSR PRACTICES LEAD TO SUCCESSFUL INNOVATION IN SMES?

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## ABSTRACT

Corporate Social Responsibility (CSR) has become a widely used term in business. Recent studies in this area show that the implementation of appropriate CSR practices can produce a positive impact on the performance of an organisation. Furthermore, it is believed that there is a link between innovation and CSR related practices. Even though information in the area of CSR is widely available there is little evidence of previous work that explicitly addresses the link between CSR and innovation, within the context of SMEs in particular. The purpose of this research is to define the nature of this link and to increase awareness of sustainable CSR practices in SMEs by illustrating that these practices can generate real value to the business. The work described in this paper has an exploratory nature. It presents the findings from a fieldwork study and the initial version of a model that aims to clarify the link between CSR and innovation.

**Keywords:** Corporate Social Responsibility (CSR), Innovation, Small & Medium Enterprise (SME)

## INTRODUCTION

In recent years we have witnessed an exponential increase of initiatives around the concept of CSR as a direct response to the introduction of new legislations and the increased awareness of the public on societal and environmental issues. As a result, programmes to protect the environment, develop eco-friendly products, support local communities, engage in fair trade activities and develop so-called 'sustainable economies' are now high in the agenda of many organisations and governments.

CSR is not a new area of study. The early Quaker businesses in the Victorian era deemed the wellbeing of their employees and the society they lived in as essential to the success of the business. However, these businesses gradually gave way to market pressures, as ethical and social issues took second place to profit, and their humanitarian activities came to an end (Doane 2005). Despite the research and practical studies carried out on this subject over several decades it was not until recently that CSR became a buzzword in business. Large companies soon realised of its potential impact and started implementing initiatives that could have a positive impact on the business performance from a number of perspectives (e.g. brand, efficiency, new products and markets).

It is argued that CSR initiatives can lead to innovation through the use of 'social, environmental or sustainability drivers to create new ways of working, new products, services, processes and new market space' (Little 2006), which has led many companies to redefining their business models. More importantly it is believed that this innovation can be communicated and transferred to other organisations through the supply chain creating a virtuous circle. Nokia, for example, seized the opportunity to increase the value of its brand by pioneering responsible initiatives such as considering the environmental and social impact of their products from idea creation to its disposal.

This was achieved by designing its phones to varying degrees of energy and material efficiency, carefully selecting and auditing suppliers, and providing recycling points for used mobile phones and accessories. This has a two fold benefit as the reputation of Nokia is enhanced and its brand increases in value. GE Durham on the other hand opted to redefine its organisational structure around self-managed teams that were given high level of autonomy for decision making. This new organisational model has led this plant to exponential efficiency improvements, becoming the number 1 engine assembly plant for Boeing in the US.

These changes in priorities have also enabled the creation of new types of organisations. Redeem Plc for example is an international leader in the recovery and recycling of printer cartridges and mobile phones. By providing that service they not only add value to their customers but also reinforce their social responsibility credentials.

In parallel to changes in organisations several standards and frameworks that facilitate the adoption of CSR related practices have been developed and implemented in many organisations. These include amongst others standards like ISO 14001, Investors in People (IiP) and the EFQM Excellence Model. The ISO 26000, which should be published by late 2008, will be the standard that will cover all of the areas that fall under the CSR umbrella. This standard will include specific practices as well as measurement systems.

All of the above supports the view that CSR is not just a passing fad and it is here to stay for at least a good few years.

### **CSR IN SMEs**

As with other similar type of initiatives the rate of adoption of CSR practices has been slower within SMEs. The reasons for this slower adoption can range from the daily pressures to succeed in the marketplace to the limited amount of resources that SMEs have. In our experience however a key factor is the fact that SMEs often do not really understand the benefits of adopting these new practices. Szekely and Knirsch (2005) suggest that some of the barriers that affect the adoption and success of CSR initiatives include the lack of integration with business strategy and appropriate measuring tools to weight the success of these initiatives. Furthermore, although innovative effort appears widespread amongst SMEs evidence suggests that this does not always translate into improved business performance (Hoffman et al, 1998). As a result SMEs often prefer to participate in one-off initiatives rather than in lasting programmes thus minimising the possibility of successful sustainable practices (Burke and Gaughran 2006). The magnitude of this problem is accentuated if we consider that SMEs in Europe represent 99.8% of the total number of businesses and consequently a huge source of employment and wealth creation.

If we take into account that companies from different sectors and products have very different requirements and drivers, understanding the reasons for this lack of success of innovation and CSR related practices in SMEs can be a complex matter. Research undertaken by (Pimenova and Vorst 2004) suggests that SMEs that implement CSR related activities are primarily concerned about their public image. Similarly, (Burke and Gaughran 2006) suggest that “compliance with legislation is the key driver” and without adequate support programmes and policies (i.e. financial benefits) sustainability would be difficult to achieve. There are many definitions of CSR as well as different opinions on how CSR should be introduced in organisations, which increases the complexity of the issue. It is important to emphasize that the stance that the European Community has taken with regards to several aspects of CSR is a voluntary one. The rationale behind this approach is that stringent rules and regulations constrain creativity and innovation in organisations reducing competitiveness (Poolton and Ismail 2000). On the other hand, it is believed that the lack of rules and legislations with a non voluntary approach may create complacency and encourage companies to do as little as possible, e.g. public relation stunts aimed at increasing profit without actually contributing in a positive way to society or the environment (Pimenova and Vorst 2004; Doane 2005). These opposite points of view are valid as they have been exposed by mass media and

witnessed by society. This raises the question: what is the role of business in CSR? Unfortunately there is no single answer to this question. The bottom line is that whether CSR practices are forced upon an organisation or voluntary, for these practices to be successful they must have a 3 fold positive impact on the company profits, the environment and the society.

The review of the literature suggests that there is still a lack of understanding of how CSR initiatives can support innovation programmes that lead to business performance improvement in SMEs. The study presented in this paper aims to make a contribution in that direction.

## **OUR RESPONSE**

This study stems from a 15-month EU funded collaborative research project called RESPONSE. The overall aim of the project is to mainstream CSR in European SMEs through demonstrating the link with successful innovation. The key idea of the project is to prove that CSR practices can be a means to creating added value to SMEs. This is achieved by demonstrating the link with innovation. If we can help SMEs add value to their business operations and encourage them to behave responsibly, there is a real chance of positive change.

The expected outcomes of this project are a practical model that describes the nature of the link between CSR and innovation through the identification of the relationship between the different stakeholders and the definition of best practice tools and methods. This will then be converted into teaching and training material for both SMEs and academic institutions.

This study has an exploratory nature. We intend to achieve the initial projects objectives by doing a thorough review of the literature and carrying out case studies with organisations from across 3 European countries (UK, Spain and Italy).

## **INITIAL FIELDWORK STUDY: A SCOTTISH PERSPECTIVE**

From all the organisations analysed during the initial fieldwork study 10 of them were based in Scotland (7 SMEs and 3 multinational organisations). When targeting the companies the objective was to get a mix of organisations in terms of size and recognised CSR/innovation practices in order to be able to compare and contrast data from organisations of different nature (Table 1 provides a summary of the data collected from these companies). The key findings from this initial study were the following:

- (1) In spite of having CSR practices in place SMEs do not have a clear understanding of the meaning and potential benefits of CSR. In order to adopt any CSR practice it is critical for SMEs to understand the potential impact of CSR in business performance.
- (2) The drivers for adopting CSR practices considerably differ between organisations. While CSR is a key element of the strategy and culture of some companies (Companies A, B, J) other companies mainly use it for image/branding purposes (Company I), developing new products (Company G) cost reduction purposes (Company F) or risk management (i.e. complying with legislation or responding to pressures from society) (Companies D, E) . It appears that the link between CSR and innovation is more evident in those organisations where CSR is an integral part of the business strategy.
- (3) We can classify the drivers for adopting CSR as being *reactive* or *proactive*. While a reactive approach to CSR (i.e. responding to specific requirements/pressures in a given time) can potentially lead to short terms benefits a proactive approach (i.e. strategic) can lead towards more sustainable innovation.
- (4) CSR practices used by companies are well known and proven methods. Recognised quality frameworks (e.g. ISO 14001; EFQM, Investors in People) appear to be a commonly used approach to deploy CSR practices.
- (5) Institutional support and incentives (governmental subsidies for Company A, tax credits for Company B) play an important role when adopting CSR and innovation practices.

Table 1- Summary description of companies studied in Scotland

COMPANY	DETAILS	MISION & VISION	CORE PRODUCTS	MARKET	MOTIVATORS TO CSR & INNOVATION
A	Number of Employees: 136 Annual turnover: £1.2M	To provide meaningful employment for disabled and disadvantaged people, who would not otherwise have the opportunity	<ul style="list-style-type: none"> <li>Manufacturing support</li> <li>Complimentary workforce</li> <li>Off-Site Associates</li> </ul>	General Business Community & Large Blue chips	CSR is embedded in the culture of organisation (key driver of business model) Government financial benefits (tax relief & machinery subsidy)
B	Number of Employees: 11 Annual turnover: £1M	Regards itself as a service company with a 'No Fix, No Fee' policy. Business transparency is considered highly important.	<ul style="list-style-type: none"> <li>Wave solder fixtures</li> <li>Print support fixtures</li> <li>Press fit support tooling</li> <li>Inspection overlay</li> </ul>	Electronics, communications & information technology industries	CSR is embedded in the culture of organisation. From waste disposal to staff empowerment.
C	Number of Employees: 13 Annual turnover:		<ul style="list-style-type: none"> <li>Machinery for the food industry</li> <li>Repairs, modifications and manufacture of general machinery and components</li> </ul>	food & drink, manufacturing, engineering, electronics, printing, automotive, nuclear & steel industries	Due to the flexible nature of the company it seeks to remain continuously interested in new trends. Public relations are considered important. They believe in staff development.
D	Number of Employees: 4 Annual turnover: £400K		<ul style="list-style-type: none"> <li>Orthopaedic products aimed at protecting vulnerable areas and increasing mobility of patients</li> <li>Electrical stimulation</li> </ul>	Healthcare industry (NHS) and private sector.	The Healthcare industry is closely related to CSR. However NHS pushes sustainability of medical products. Specially if the product has a short life span
E	Number of Employees: 160 Annual turnover: £11M	To increase the market share in England and continue to hold the Scottish market	<ul style="list-style-type: none"> <li>Timber wood windows &amp; doors</li> <li>Bespoke window products</li> </ul>	All market sectors including House builders & Councils. At present own 35% of Scottish market and 1% in England.	CSR is pushed through the higher management of the organisation. Commitment to protect the environment and improve well being of employees.
F	Number of Employees: 70 Annual turnover: £5M	To treble turnover over the next 5 years by providing new products to new markets increasing the furniture side of the business	<ul style="list-style-type: none"> <li>Fire surrounds Furniture</li> <li>Recently embarking on kitchens</li> </ul>	Retailers such as B&Q, Sterling, Forest Furnishings. Councils (north Lanarkshire) Independent Retailers & House builders	ISO 14000, reduce energy consumption (use of low energy light bulbs) and waste (better use of MDF material)
G	Number of Employees: 3 Annual turnover: N/A	To establish themselves as a product development company. The company was born from a KTP programme and is trying to consolidate at the moment.	<ul style="list-style-type: none"> <li>Working on the development of a family of plastic bottle insulators.</li> </ul>	The product is aimed at large sport retailers such as Nike or Adidas.	The product under development is designed with sustainable methods and methodologies. The material used to insulate is currently used in the industrial sector. A patent has been filed.
H	Number of Employees: 320,000 worldwide Annual turnover: N/A	To be trusted partner for customers, a reliable long-term investment, a progressive employer and a responsible corporate citizen.	Software, servers & storage, workstations, printers, upgrades & accessories, IT services & solutions and consultancy		<ul style="list-style-type: none"> <li>CSR and Innovation are embedded in the culture of the organisation and integrated in the written policies and strategies of the organisation. clients, our neighbours.”</li> <li>Multiple CSR related practices</li> </ul>
I	Number of Employees: ~5000 in UK Annual turnover: N/A	<ul style="list-style-type: none"> <li>Marketplace</li> <li>Environment</li> <li>Workplace</li> <li>Community</li> </ul>	<ul style="list-style-type: none"> <li>20 drink brands</li> </ul>	General consumer	Very much brand/image led approach to CSR. Multiple external facing CSR activities.
J	Number of Employees: Annual turnover: N/A	Be a world leader in renewable energy, while continuing to invest in other forms of generation to balance environmental considerations with value creation and providing secure and affordable energy for customers.	Gas and electricity generation, distribution and related services	General consumer	<ul style="list-style-type: none"> <li>CSR is embedded in the organisation and integrated in the strategy of the organisation. Includes a CSR department</li> <li>Engagement with employees to improve customer service and become a trusted neighbour to communities.</li> <li>Push CSR through the supply chain.</li> </ul>

## CSR:I MODEL

As a result of the initial review of the literature and fieldwork study carried out in 3 EU countries the first version of the CSR:I model has been developed. The model is divided into 3 different parts:

- The actor model
- The process model
- Best practice – stakeholder relationship table

The *actor model* (see Figure 1) helps us to visualise the existing relationship between the internal and external stakeholders that interact in the CSR cycle. This model focuses on the idea generation process within the context that SMEs operate.

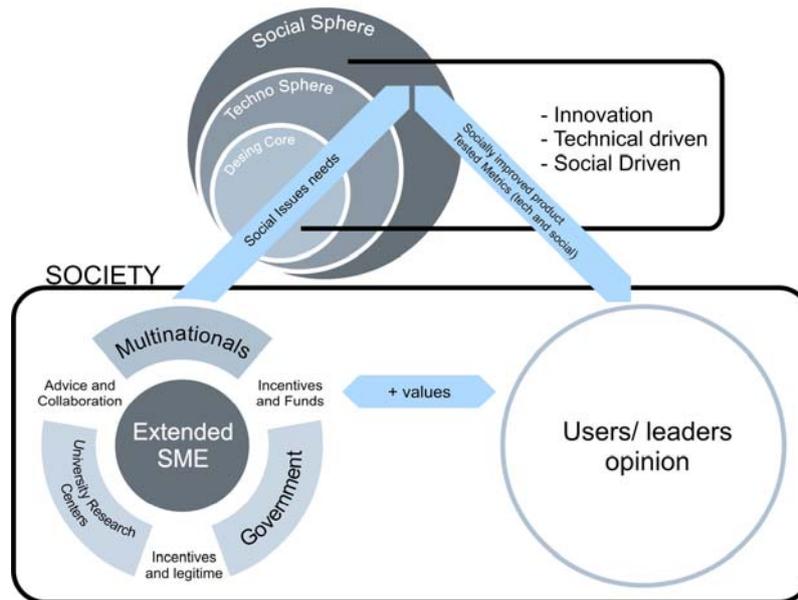


Figure 1- Actor model

The *actor model* highlights the relationships between some of the stakeholders involved in the CSR-innovation relationship:

- Activities that strengthen the relationship between Universities, government and SMEs support the *triple helix* model of innovation.
- Activities towards supporting the environment (e.g. recycling, use of renewable energies) enable the creation of a social sphere leading towards innovation of product and process.
- The involvement of the user/customer in the development of product and services strengthen the relationship between SMEs and the society. This can lead to innovation of products and services aimed at needs/groups of society that were not previously targeted (*inclusive design*).
- Large multinationals demand deployment of CSR practices, increased innovation and accreditation to its supply base. Multinationals can often request a social audit of their supply base. This creates a need for SMEs to increase the value to the product and services to operate in these value chains, which often leads to innovations in management processes.
- By increasing public awareness and changing legislation, media and government can penalise the use of certain types of energy, processes or materials. This can lead to product and process innovations.

This *actor model* does not necessarily represent the current situation. Instead it provides a vision for a collaborative system that could enable the development of socially responsible products and services.

The *process model* (see Figure 2) represents a simplified innovation process (i.e. idea generation-development-exploitation) and the relationships with stakeholders at different stages of the process. This model allows to identify and visualise specific CSR activities that at each stage of the process can generate innovations. It departs from the perspective that companies have an innovation process in place and that CSR can build on that.

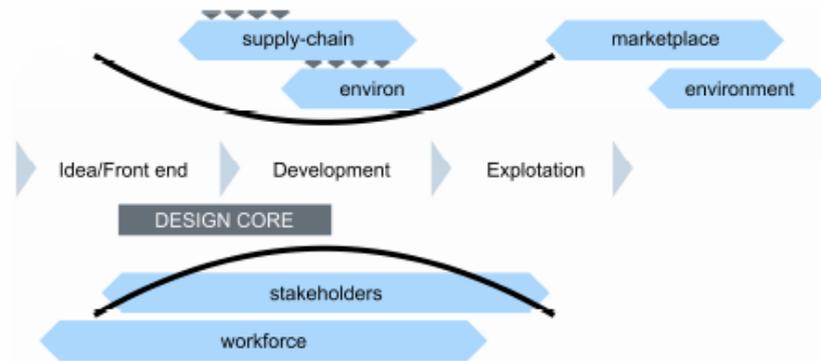


Figure 2- Process model

The *best practice-stakeholder relationship table* was developed from the practices identified in the literature and mainly from the interviews with the organisations. The overall objective for developing this table is to identify those CSR related practices that can potentially impact on innovation. This table relates the use of specific CSR related practices with particular type of innovations (product, process or management) and the stakeholders affected. It also identifies the standards available that can support that type of practice. The argument here is that recognised standards can provide a management framework to implement and improve CSR related initiatives in SMEs. Figure 2 shows a sample version of the table.

Practice	Innovation			Stakeholders								Quality standard
	Product	Process	Management	Employee	Supplier	Environment	Society	Customer	Shareholder	Government	University	
Environmental												
Ecodesign	New products	New processes	Strategic decision	X	X	X	X	X	X	X	X	ISO 14001
Employees												
Training programme	Potentially	Potentially	Skills development	X								IIP
Supply Chain/B2B												
Long term agreements with customers and suppliers	Improvements to product development process	Process improvements	New management process (e.g. joint strategy development process)		X		X	X	X		X	EFQM
Society												
Working on community projects			Motivation and integration	X		X	X		X			EFQM
Customers												
Inclusive design	New products	New processes	Strategic decision	X	X	X	X	X	X	X	X	EFQM

Figure 3- Sample version of best practice-stakeholder relationship table

## DISCUSSION

In general terms the findings from the companies in Spain and Italy (26 in total) mirror the Scottish context. From a SME perspective CSR is generally perceived as a set of activities or policies without a clear measurement process and not as an integral part of the business strategy. Companies that have elements of CSR engrained in their values and strategy demonstrate more sustainable benefits. A proactive rather than a reactive approach to CSR is therefore seen as the way in which these practices should be adopted. This view is in line with current thinking in the area (Fontrodona, 2006).

Even if the cause and effect relationship between CSR and innovation is still not totally clear findings from the companies studied show that a link between the two exists. Also, evidence suggests that the existence of an established innovation process within the company can increase the potential of CSR generating more value to SMEs.

In terms of the location and context in which the SMEs operate, it appears that a closer relationship between the different stakeholders (e.g. SMEs, large businesses, Universities, Governments, Society, pressure groups) is required to develop core competencies in developing socially responsible products and services. In Scotland that would mean developing a support framework where SMEs would closely collaborate with enterprise development agencies (e.g. Scottish Enterprise, Scottish Manufacturing Advisory Service), advisory groups (e.g. Business in the Community, Quality Scotland), Universities and the local communities. This can be a challenge

on itself. The current drivers and measurement systems for each of these stakeholders often conflict, which makes collaboration a complex process to embark on.

## CONCLUSION

The study described within this paper aims towards developing a better understanding of how CSR initiatives can lead to successful innovation in SMEs. In the process of achieving this objective we often found ourselves coming up with more questions than answers. So, it is still early days to come up with more definite answers from this research study. The CSR:I model described was developed through the review of the literature and the initial fieldwork study. It therefore requires going through the next stage of validation and refinement.

We believe that the work carried out as part of this research project and this subject area in general has great potential for having a key impact on the economy. The development of the innovation capabilities of SMEs through responsible and sustainable initiatives can contribute to the competitiveness of SMEs and the development of regional economies.

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