

Investigating the Relationship Between Corporate Social Responsibility and Innovation

Kanokkarn Tevapitak Cooke

Business School, Ubon Ratchathani University, Thailand

Email: tkanokarn@yahoo.com

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Abstract

This article aimed to investigate the relationship between corporate social responsibility practices and innovation performance by reviewing the literature on these topics. This article reviewed thirty-five papers and analyzed them according to the research stream. The research streams were classified into: (1) conceptual papers, (2) literature reviews of papers, and (3) research papers. This article also grouped them into four main groups according to the nature of the relationship between CSR and innovation: (1) a direct relationship between CSR and innovation; (2) an indirect relationship between CSR and innovation; (3) no relationship between CSR and innovation; and (4) diverse relationships between CSR and innovation. The indirect relationship presents both CSR and innovation as (1) a representative of other variables, (2) a moderator or mediator between CSR/innovation and other independent variables, such as growth, performance, and sustainability, and (3) a controlled variable.

The classification of research articles provides a clear picture of the relationship between CSR and innovation, which is more complicated than how the linear positive relationship of CSR influences innovation.

Keywords: Corporate Social Responsibility; Innovation; Sustainability

Introduction

Corporate social responsibility or CSR is currently defined as a mechanism for realizing the significance of practices that concern society and the environment, not only the benefits of businesses. CSR does not only reduce financial risk but also prevents businesses from damaging their reputations (Shnayder, Van Rijnsoever & Hekkert 2016 as cited by Chinomona & Omoruyi, 2016). CSR is also believed to increase business competitiveness and the long-term performance of businesses, especially when CSR has become “a strategic resource to be used to improve the bottom-line performance of the corporation” (McWilliams 2001 as cited by Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014).

Regarding innovation, CSR practices encourage innovation since companies need to create new products and services based upon their social and environmental values (Kozubek, 2015). Considering the virtuous circle of CSR and innovation, MacGregor and Fontrodona (2008) explain that CSR drives innovation because of the values to create social products and services, while innovation triggers CSR by focusing on the development process of the output. The empirical evidence concerning the relationship between CSR and innovation shows that CSR is more influential on innovation than the vice versa. CSR/innovation relations can also be both direct and indirect (MacGregor & Fontrodona, 2008). Additionally, environmental practices are the primary focus of previous research (Ratajczak & Szutowski, 2016).

Nonetheless, studies about the relationship between CSR and innovation remain limited. There have been some works proving the influence of CSR on innovation, but not the opposite (Kozubek, 2015). There are also very few literature review papers concerning this topic. The work of Ratajczak and Szutowski (2016) systematically reviews literature in term of results, assumptions, and methodologies used concerning the relationship between CSR and innovation, while the article by Szutowski and Ratajczak (2016) focused on the conditions in which the relationship between CSR and innovation exists and develops. However, they did not classify research streams in order to obtain an overall picture of the available research on this topic. This article aims to fill this gap by classifying all the papers, especially research papers, according to the nature of the relationship between CSR and innovation.

Following the introduction as the first section, the article is structured as follows: The second section presents the methodology used for this article. The third section reviews literature concerning the concept of CSR, innovation, and the relationship between CSR and innovation. The

fourth section presents the results of the literature review. The fifth section analytically discusses the results of the comparison, including conclusions and theoretical contributions. The final section presents conclusions, research implication and the trends for the future research.

Methodology

The research question of this article is “What is the state of knowledge of the relationship between CSR and innovation?” The search engines, SpringerLink, Web of Science, and ScienceDirect were used to acquire relevant articles. For SpringerLink, the search string in the advanced search was “CSR, Innovation”. The search string for Web of Science was “CSR and innovation,” which are used to search for keywords in a title. For the search in ScienceDirect, “CSR, innovation” was used in an advanced search, which included title, abstract, or author-specific keywords. The reason for using these search strings was to ensure that the articles contain details of these topics in their content, given that very few articles about this topic are published. The search period was 2008–2018. The reason for choosing this period was it followed the publication of an article by MacGregor and Fontrodona that was published in 2008 and was the time during which the ideas about CSR and innovation emerged. The search results exclude book chapters, websites, reports, working papers, and non-English articles. Initially, 59 articles were acquired from the three search engines, but only 35 articles remained following evaluation for relevancy and deleting repetitive works.

Literature Review

Definitions of Corporate Social Responsibility

A lot of international organizations, public sectors, and CSR groups have developed their own definitions of Corporate Social Responsibility. For example, the Department for International Development (DFID) in the UK generally defines CSR as, “how companies manage their core business to add social, environmental and economic value in order to produce a positive, sustainable impact for both societies and the business” (Department for International Development, 2003). With more focus on the workforce and community, the World Business Council for Sustainable Development (World Business Council for Sustainable Development, 1999) states that “Corporate Social Responsibility is the continuing commitment by business to behave ethically and

contribute to economic development by improving the quality of life of the workforce and their family as well as of the local community and society at large.”

Definitions of Innovation

A definition of innovation is defined by Joseph Schumpeter, who sees innovation as the way businesses can gain profits (Śledzik, 2013). For Schumpeter, innovation is a “process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one” . In other words, it is “ creative destruction.” He divides innovation into five types, which are (1) launch of a new product, (2) application of new methods of production of a product, (3) opening of a new market, (4) obtaining of new sources of raw material suppliers, and (5) new industry structure. Schumpeter divides innovation processes into four dimensions, which are invention, innovation, diffusion, and imitation (Śledzik, 2013). A later thought about innovation was generated by Peter Drucker who defined innovation as "how they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced" (Drucker, 1985).

The Relationship between CSR and Innovation: CSR-driven Innovations and Innovation-driven CSR

CSR and innovation can have bi-directional systems, which are defined as a CSR-driven innovation system and an Innovation-driven CSR. CSR-driven innovation is triggered by social values motivating the creation of specific products and services, such as anticrime designs, eco-designs, and designs for all. On the other hand, Innovation-driven CSR is to generate social processes whereby products and services are developed in a more responsible way. In brief, CSR-driven innovation is about “doing the right things”, while Innovation-driven CSR is about “doing things right” (MacGregor & Fontrodona, 2008).

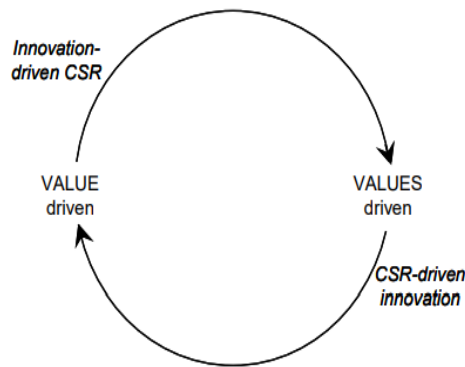


Figure 1: The virtuous circle of CSR and innovation

Source: MacGregor and Fontrodona (2008)

Empirically, there are not too many studies about the relationship between CSR and innovation. There is also more literature on CSR-driven innovation than there is on innovation-driven CSR (Kozubek, 2015). Besides, there are only a few literatures review papers on this topic. An article by Ratajczak and Szutowski (2016) provides a wide-ranging picture of what has been studied about CSR and innovation. They state that the relationship between CSR and innovation is complicated, and only some parts of the entire picture is analysed due to its complications (Ratajczak & Szutowski, 2016). In addition, studies in this field do not show a strong theoretical background and do not present any dominant approach (Ratajczak & Szutowski, 2016). The other literature review article focuses on the conditions where the relationship between CSR and innovation exists (Szutowski & Ratajczak, 2016). Nonetheless, no literature review article analyses the distribution of research stream. Therefore, this paper aims to fill this gap.

Analysis

There are three main types of articles classified by research stream. They are: (1) conceptual papers, (2) literature review papers, and (3) research papers.

Conceptual papers.

Among thirty-five articles, five of them are theoretical papers that mainly focus on the relationship between CSR and innovation. Most of them explain that companies that commit themselves to CSR will have a better innovative capacity, which will benefit them in the long term. However, they focus on different aspects. For example, the article by Rexhepi, Kurtishi, & Bexheti (2013) states that when CSR is operated strategically, innovation will develop, particularly in

relation to value creation and resource utilization. Nonetheless, some articles tend to be more specific. Roszkowska–Menkes (2018) tried to integrate strategic corporate social responsibility (SCSR) with open innovation by using stakeholder theory. This article explains that CSR-specific external knowledge encourages innovation that brings corporate value and undertakes stakeholders' demands. The studied articles also show that CSR and innovation share a relationship, especially CSR to innovation. However, this relationship does not need to be direct, although this relationship might be encouraged by cooperation (Roszkowska–Menkes, 2018). A few articles concentrate on the network or partnership of CSR by explaining that when CSR gets more participation, it gains more innovation solutions (London, 2012). Besides, CSR as a network will lead to innovation through cooperation and competition (von Weltzien Heivik & Shankar, 2011). Alternatively, some works suggest that the relationship between CSR and innovation is implicit and automatic, such as the article by Gugler & Shi, Jacylyn, 2009, which states that CSR leads to competitiveness through innovation.

Literature review articles

Among thirty-five articles, two literature review articles were found. Both focus on the relationship between CSR and innovation, but review differing aspects. One article studied the determinants and conditions encouraging the relationship between CSR and innovation. The type of innovation and degree of novelty affect the influence of innovation on CSR. In contrast, CSR features such as type of reaction, degree of development, and field of activity affect the impact of CSR on innovation (Szutowski & Ratajczak, 2016). The other article pays attention to the state of knowledge about the relationship between CSR and innovation. The article finds that many aspects of the association between CSR and innovation require more research since the assumption is always that CSR and innovation have a mutual impact upon each other. A diversity of relationship determinants was also found by Ratajczak & Szutowski (2016).

Research articles

Apart from conceptual papers and literature review articles, there are twenty-eight reviewed research articles, which are classified into four groups. They are: (1) the direct relationship between CSR and innovation group (10 articles), (2) the indirect relationship between CSR and innovation group (15 articles), (3) the no relationship between CSR and innovation group (1 article), and (4) the diverse relationships between CSR and innovation group (2 articles).

A. The direct relationship between CSR and innovation group

In this group, the articles can be classified into two subgroups: (1) CSR directly influences innovation (7 articles) and (2) innovation directly influences CSR (3 articles). Among the seven articles in the first group, six articles show that CSR directly and positively affects innovation.

CSR directly influences innovation

Six articles indicate that CSR directly and positively influences innovation. From these six articles, two of them show that companies with better environmental responsibility are more able to innovate new products (Shimada & Van Wassenhove, 2019; Wu et al., 2018). The article by Shimada & Van Wassenhove (2019) shows that home appliance manufacturers when forced by the extended producer responsibility (EPR) scheme improved the efficient recycling of their end-of-life products. This work is consistent with the work of Wu, Liu, Chin, & Zhu (2018) who shows that businesses that need to be more innovative should be more environmentally responsible. The work of Vanelander (2016) also indicates that environmental innovation (Co2 emission) responded best to CSR goals of companies. Apart from environmental CSR, companies committing to CSR in general, have a better innovative capacity (Boubakary, & Moskolai, 2016; Luo & Du, 2015). The other research states that innovation and CSR for customers are triggered by employability CSR (Ueki et al., 2016).

The six articles above show that firstly, it is general CSR and environmental CSR that directly trigger innovation. Secondly, the successful influence of CSR on innovation depends on other factors. For example, CSR for customers can only enable innovation with the condition of hiring socially responsible employees (Ueki et al., 2016). The positive relationship between green CSR and innovation will be stronger with high business visibility and transparency (Wu et al., 2018), with higher R&D investment, and businesses operating in more competitive markets (Luo & Du, 2015).

In contrast to the research above, the study by Mithani (2017) presents a negative influence of CSR on innovation. The reason offered is when the commitment to CSR (ecological and social concentration) is more substantial, the higher the financial burden is on a company, thus harming innovative capacity.

Innovation directly influences CSR

This group presents the opposite direction to the first group of research articles. The three articles by Mishra, Gunasekaran, Papadopoulos, & Hazen (2017), Ramani & Mukherjee (2014) and

Halkos & Skouloudis (2018) show that innovation positively and directly affects CSR. One article reviewed the relationship at the national level (Halkos & Skouloudis, 2018), while one was a case study that focused on breakthrough technological innovation (Ramani & Mukherjee, 2014), and the third one used quantitative methods to study businesses in general. They all show that when companies have a better innovative capacity, they are more likely to commit to CSR. The reason given for this is that innovative businesses want to “develop valuable reputational resources and reduce capital constraint,” (Mishra et al., 2017, p. 303) which benefits the companies. In addition, some breakthrough technological innovation can trigger CSR returns. This is due to the type of innovation, especially the BOP innovation whose successful factors depend on the impact of the ecosystem whereby CSR strategy has to be considered with a business strategy (Ramani & Mukherjee, 2014).

B. The indirect relationship between CSR and innovation group

CSR and innovation do not only have a direct relationship, but the indirect relationship between them can also be found. Research in this group can be classified into three sub-groups: (1) CSR/innovation is a mediator of other variables, (2) CSR/innovation is a subset or representative of other variables, and (3) CSR/innovation is a controlled variable.

CSR and innovation are a mediator/moderator

In this group, CSR or innovation is either a mediator or moderator of another variable. Among these seven articles, five of them indicate that innovation is a mediator or moderator of CSR and other variables such as business growth (Bocquet et al., 2017), business performance (Martinez–Conesa et al., 2017), corporate financial performance (Ruggiero & Cupertino, 2018), a management control system (Arjaliès & Mundy, 2013), or a different strategy (Upadhaya et al., 2018). These research articles show that innovation is a positive moderator because when innovation increases, the relationship between CSR and other variables is stronger. The reasons are businesses with an innovative culture tend to adopt new management practices, leading to better performance (Upadhaya et al., 2018). In addition, innovation helps businesses respond better to stakeholder demands (Ruggiero & Cupertino, 2018). This relationship suggests that even though innovation does not have a direct link with CSR, it moderates the relationship between CSR and its impact, especially on growth.

CSR/innovation is represented by other variables

In this group, the research does not review the relationship between CSR and innovation explicitly. They explore the relationship between CSR (or innovation) with another variables, but that variable represents CSR or innovation.

Among the seven articles, five of them use terms related to ‘sustainability’ or ‘environment’ to represent CSR. Examples of this are corporate sustainability (Pedersen et al., 2018), environmental performance (Ghisetti & Quatraro, 2013), sustainability commitment (Veleva & Bodkin, 2018), and sustainable performance (Hsu et al., 2011). Another term that is used to represent CSR is corporate social performance (Kashmiri & Mahajan, 2014). For innovation related to the environment, the term ‘green innovation’ is used in two articles (Ghisetti & Quatraro, 2013; Hsu et al., 2011), and ‘sustainable innovation’ is used in one article (Lodsgård & Aagaard, 2017). Additional terms include business model innovation, proactive marketing behaviour, disruptive innovation, and accessibility to websites.

In this group, the role of CSR and innovation is diverse. Four of the seven articles studied the relationship between variables representing innovation and CSRs (Ghisetti & Quatraro, 2013; Martínez et al., 2014; Pedersen et al., 2018; Veleva & Bodkin, 2018). CSR and innovation are either independent or dependent variables. One piece of research used green innovation as an indicator to measure sustainable performance (Hsu et al., 2011). One study represented CSR and innovation as the independent variables (Kashmiri & Mahajan, 2014), and one piece of research used innovation as a part (or measurement) of the collaboration between CSR and NGO (Lodsgård & Aagaard, 2017).

Among the four articles studying the relationship between variables representing innovation and/or CSR, three of them present a positive correlation between CSR and innovation. Articles by Pedersen et al., (2018) and Veleva & Bodkin (2018) found that innovation or variables representing innovation, such as marketing behaviour, positively influenced CSR or variables representing CSR. In contrast, research by Ghisetti & Quatraro (2013) found that businesses with higher environmental CSR (endogenous inducement mechanism) have better green technology. Nonetheless, one article shows a negative relationship between CSR commitment and innovation, represented by the accessibility to banking websites (Martínez et al., 2014). The reason for this is innovation was not regarded as the action related to CSR strategies. This suggests that CSR and innovation can influence each other. The direction of influence is not dominated by one primary variable. Other articles indicate the importance of innovation concerning business performance

(Kashmiri and Mahajan 2014), to collaborative activities in the intersection between CSR and core business functions NGO (Lodsgård & Aagaard, 2017), and to understand the sustainable perspective of measurements (Hsu et al., 2011).

CSR/innovation is a controlled variable

The only article in this group was published by Rodgers, Choy, & Guiral (2013). This article does not study the relationship between CSR and innovation, but rather CSR and CFP. It shows that when innovation is a controlled variable, CSR still positively affects CFP.

C. The no relationship between CSR and innovation group

The article by Demirel & Kesidou (2011) found that environmental CSR does not influence all types of eco-innovation. This means that CSR may be used as a supporting mechanism policy, but not as the primary driver of innovative capacity.

D. The diverse relationships between CSR and innovation group

Apart from direct, indirect and none relationship between CSR and innovation, diverse relationship between them also exists. Diverse relationship means the influence from CSR to innovation or innovation to CSR can be various, depending on their conditions. The article by Bocquet, Le Bas, Mothe, & Poussing (2013) shows that CSR can both positively and negatively influence innovation. Businesses that adopt strategic CSR have better product and process innovative capacity, while businesses with responsive CSR create barriers to process innovation. The reason for this is when businesses manage their organizations strategically, they increase the internal R&D level and hire more educated employees, which automatically supports innovation. Similarly, the article by Costa, Costa, Lages, & Hortinha (2015) shows that CSR increases the impact of exploratory innovation on export performance, whilst the opposite effect is evident with exploitative innovation on export performance.

Discussion and Theoretical Contribution

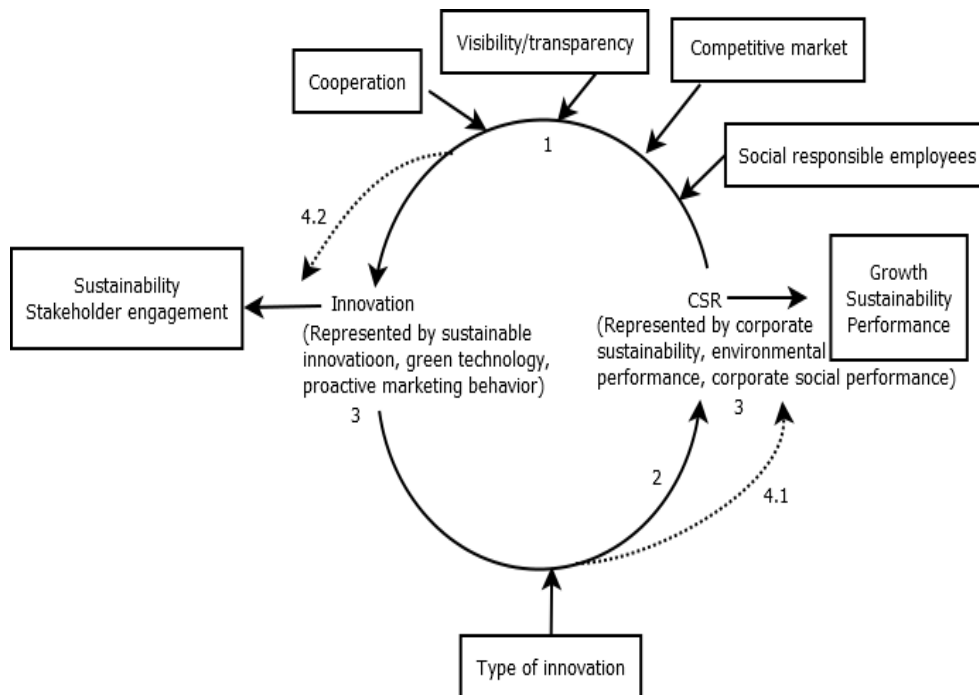


Figure 2: A summary of CSR and innovation relationships

Source: Author derived

Figure 2 shows that CSR, in general, positively influences innovation (direction 1) because when businesses need to be more responsible, especially for environmental practices, they need to be innovative in order to develop products and achieve their goals. The studied research indicates that the influence of CSR will be more substantial if additional factors, such as cooperation, visibility, transparency, competitive market, and socially responsible employees play a greater role. On the other hand, innovation also directly impacts CSR (direction 2) since innovative businesses want to improve their reputations, especially regarding breakthrough technological innovation.

Figure 2 also indicates that CSR and innovation appear in the form of other variables. For instance, CSR is represented by corporate sustainability, environmental performance, and corporate social performance, while sustainable innovation, green technology, and proactive marketing behaviour represent innovation (number 3). The figure also shows that innovation plays a role as a positive mediator or moderator for CSR and other variables such as growth, sustainability, and performance (number 4.1). The reason is businesses with innovative capacity are more likely to respond better to stakeholders and be open to new managerial ideas, thus

improving the relationship between CSR and performance/sustainability. CSR can also be a mediator for innovation and other variables, such as sustainability and stakeholder engagement (number 4.2).

This article suggests that, firstly, the direct influence of CSR on innovation is more evident than in the opposite direction. This finding is similar to the explanation of Szutowski and Piotr Ratajczak (2016). Nonetheless, this article reveals that most of the reviewed papers show a direct relationship between CSR and innovation in product proxies by patent data and the number of new products released, whilst only one paper used ‘introduction of the new manufacturing process’ as a proxy for innovation (Boubakary, & Moskolai, 2016). This finding contributes to the research on this topic that indicates that CSR can only be a soft driver for innovation, principally when the meaning of innovation covers a significant improvement in products, processes, marketing, and organization (OECD and Statistical Office of the European Communities, 2005).

Second, this article finds that the relationship between CSR and innovation relates mainly to the environment since both groups of direct and indirect relationships are connected with sustainability and the environment. This is similar to the work of Szutowski and Piotr Ratajczak (2016) who found that CSR and its relationship between CSR and innovation only exists in the form of corporate environmental responsibility. Nonetheless, this article argues that CSR, in some studies, such as Boubakary, & Moskolai (2016), Vanelander (2016), and Luo & DU (2015) also appears in the form of general CSR, corporate social performance (Kashmiri & Mahajan, 2014), and corporate social and environmental performance (Bendell & Huvaj, 2020). The CSR type that never came up in this study is that of human rights.

Third, the relationship between CSR and innovation is not always linear since only ten articles present a direct connection between them. This is consistent with the article by Ratajczak & Szutowski (2016), who explain that the relationship between CSR and innovation is so complicated due to the multidimensional nature of CSR. Nonetheless, this article is not in accord with the work of Ratajczak & Szutowski (2016), who state that innovation is always perceived as a moderator or mediator of the relationship between CSR and corporate financial performance. This article shows that CSR is also a mediator between innovation and other variables, such as corporate sustainability and stakeholder engagement. Nevertheless, innovation has a more obvious role as a mediator than CSR. The reason is an innovation by itself significantly and positively affects business growth (Bocquet et al., 2017). When CSR aims for growth, better CFP, and performance, the characteristics of innovation will contribute directly to those goals.

Last, the contribution this article offers is to extend the overall perception and understanding of CSR and innovation relationships, provided by MacGregor & Fontrodona (2008), who explain this relationship as CSR-driven innovation and innovation-driven CSR. This study is not in agreement with the analysis by Ratajczak & Szutowski (2016) who suggest that the relationship between CSR and innovation seems to be a part of the relationship between CSR and CFP. The relationship between them can present in several forms, such as a direct relationship between CSR and innovation, CSR (or innovation) as the mediator or moderator for innovation (or CSR) and other variables, CSR or innovation as represented by different variables, and CSR/innovation as a controlled variable. It cannot be expected that when businesses commit to CSR, innovation will automatically emerge and vice versa. The reason for this is CSR does not have a direct goal to improve innovative capacity. It is to improve reputation, growth, and performance. Therefore, an explicit direct relationship between them does not always exist. This explains the reason why “the relationship between CSR and innovation is often discussed indirectly in the research dedicated separately to CSR or innovation” (MacGregor & Fontrodona 2008 as cited by Ratajczak & Szutowski, 2016, p.310). Moreover, another key finding in this study is the relationship between CSR and innovation can be positive, negative, neutral, and diverse, depending on relevant determinants. However, the majority of reviewed research indicates a positive correlation between CSR and innovation, no matter which type of relationship they have.

Conclusions and Research implications

This article reviews 35 papers related to the relationship between CSR and innovation. It uses a systematic literature review with the research strings ‘CSR and innovation’ and ‘CSR, innovation’ to search for articles published during the period 2008–2018 in three search engines: Sciencedirect, Web of Science, and Springerlink. This article classifies articles into three groups: conceptual papers, literature review papers, and research papers. Most of the conceptual papers agree that when companies commit themselves to CSR, their innovative capacity will be improved, with none of the papers indicating the opposite. In addition, two literature review papers reviewed the articles on CSR and innovation and found different determinants of the relationship. The research papers group is divided into four main subgroups, which are: (1) the direct relationship between CSR and innovation group, (2) the indirect relationship between CSR and innovation group, which was classified as: (a) CSR/innovation is a mediator/modertor, (b)

CSR/innovation is represented by other variables and (c) CSR/innovation is a controlled variable, (3) the none relationship between CSR and innovation group, and (4) the diverse relationships between CSR and innovation group. This method of grouping the studied articles provides a clear picture of the state of knowledge of the relationships between CSR and innovation, which does not exist in the literature review articles by Szutowski and Ratajczak (2016) and Ratajczak and Szutowski (2016). These relationships do not agree with the analysis by Ratajczak and Szutowski (2016) who suggest that the relationship between CSR and innovation seems to be a part of the relationship between corporate social responsibility and corporate financial performance.

The findings suggest that entrepreneurs can be encouraged to be socially responsible with a reason that they might have an innovative product as an outcome. Moreover, innovators can be motivated to be more socially responsible when reputation and sustainable business growth are emphasized. Moreover, if entrepreneurs want to increase the contribution of CSR to business growth or business performance, the findings indicate that innovation can be used as a moderator of the relationship.

Future research

The descriptive analysis of diverse relationships between CSR and innovation shows that some topics in this field would be interesting for further research in the future. For example, there should be more research on this topic in developing countries since very few research studies have been completed and published in these countries. Studying this topic at a place where innovative capacity is still low and while the awareness of social responsibility is not very intensive, might bring more insights into whether CSR and innovation influence each other and the mechanism of how it happens. Understanding this relationship might assist and motivate companies in developing countries to commit themselves more in one of these activities. Moreover, future research might also focus on the factors or environments that lead to a better relationship between CSR and innovation. This knowledge will help companies to improve the relationship or the influence they can have on each other.

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