Free Market Innovation and Corporate Social Responsibility:

And the World Will Be As One

John Michael Donohue

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Abstract

Though the operational differences distinguishing profit-pursuing innovation from Corporate Social Responsibility (CSR) may be material, and in fact may represent entrenched archetypes, neither the differences nor the archetypes which pervade current literature need to presume an insurmountable stalemate. Therein resides the research gap which the author addresses in this paper. That gap is discovered from a body of existing literature seemingly imputing archetypes which need to be evaluated and having been evaluated, it is useful to define the implications for leadership and to promulgate a new, much needed value model for the business enterprise. The hope of a gratifying union or at least a better cooperation between profit-driven innovation and CSR may be found in a fundamental transformation of the organization’s core value chain, and it is this transformative process toward which all stakeholders aspire. Change the value chain so that Corporate Social Responsibility becomes not merely a peripheral consideration, but an integral element of the organization’s innovation and value backbone.

Keywords: Corporate social responsibility, innovation, value chain, leadership, archetypes, capitalism defects, zero-sum, corporate personhood

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The author reviews the literature concerning the relationship between innovation and Corporate Social Responsibility (CSR), to identify a present shortfall in that research which perpetuates a pervasive archetype which indicates that any combination of profit-maximizing behavior by a firm with any effort toward implementing CSR tends toward a zero-sum game. This archetype stifles a greater understanding of how innovation and CSR have equal standing in a business firm's value chain, and therefore impedes potential intersections between the two processes. It is the responsibility of business leadership to move beyond these archetypes and implement the unification between innovation and CSR.

Problem Statement – Knowledge Gap – Research Needed

The profit maximization behavior of firms, as nourished by innovations which are acceptable to a consuming public and for which value is given in exchange for value, is seen in much of the literature as being more or less incompatible with CSR. It may be argued that such characterization has given rise to an archetype which tends to embellish and perpetuate a foregone conclusion that any combination of profit-maximizing behavior by a firm with any effort toward implementing CSR represents a zero-sum game. In other words, much of the literature tends to fall short in achieving that hoped-for union between profit-maximizing and CSR, and does so in at least two ways (Bellow, 2012): (1) there is often a foregone conclusion that the trade-off between financial and social outcomes will generally favor the financial outcome over the social; and (2) whether or not the literature presents a balanced set of arguments that cooperation between a firm's profit-maximizing behavior and a firm's implementation of CSR frameworks may be achievable (the descriptive aspect), there appears to be very few, if any, recommendations for the business leader or practitioner as to how firms can actually implement this combination (the prescriptive aspect).

Problems Which Existing Archetypes Render

Given that a firm's resources are limited, the firm is continuously faced by trade-offs whether or not CSR can be included in a firm's profit maximizing calculus. The practitioner should not necessarily concede, however, that the notion of a trade-off is normative, or that CSR is a second-best option. The socially conscious leader needs to push out from whatever resource restraint is imposing against CSR, thus the zero-sum concept would not pertain. More specifically, if a practitioner understands a need to prevent environmental damage for example, the practitioner must then arrange and allocate resources to accomplish that environmental imperative in addition to maintaining the requirements of other stakeholders. Stated in other words, the concept of zero-sum should not enter into the calculus or construct of CSR.

Much of the literature tends to focus on the trade-off only, or at least does not consider that resource allocation trade-offs are constant and pervasive throughout the firm implicating every resource, not just those associated with a CSR framework.

All firms represent a model of resource transformation – a set of inputs reconfigured into products and services having value to consumers – that transformational process as may be depicted by a value chain or production function. The transformation process does not preclude CSR becoming a built-in value activity or generic strategy (Porter, 1985) at every step in the value chain. The literature generally does not complete this integration either by description, or by prescription to show how the integration may be completed.

Purpose Statement

The purpose of this new research is to overcome the archetypes which imply that profit-maximization consistently trumps CSR, and to provide recommendations for practitioners in how to incorporate CSR in their value chains, thereby fully implementing CSR into the firm's culture.

Literature Review

A review of extant literature may be conveniently divided into three groups of thought: (1) literature generally based on an archetype whereby the trade-off between profit-maximization and CSR always goes in favor of the former, therefore presenting a *per totum* defect of the capitalist system; (2) literature generally supporting a convergence of profit-maximizing innovation with CSR, but may argue against its costs, or may not carry-through with an actionable convergence model which the leader can either justify to shareholders or implement; and (3) literature offering variations of actionable implementation processes shelf-ready.

Of the first literature sub-group. This sub-group reinforces defects in capitalism or the corporate model, or both, further encompassing three sub-archetypes:

1. *Capitalism or its agents are defective*. Capitalism or its agents are inherently defective *per se* (Barnes, 2003; Bird and Waters, 1989; Chafkin, 2011; Doane, 2005; Guogis, 2011; Kelly, 2003; Lovins, Lovins and Hawken, 2007; Martinez-Alier, Pascual, Vivien, and Zaccai, 2010; Shellenberger and Nordhaus, 2005). In response to the defective capitalism motif, research has been directed toward a capitalist apologetic (Tomasi, 2012; Zupan, 2011).
2. *Corporate personhood is defective*. Capitalism embodies corporate personhood (Graver, 1999) which carries moral hazards categorically contrary to CSR (Gibson, 2012; Manning 1986), particularly where the firm's interests are limited to maintenance of its corporate charter, and the firm's economic benefits are the entitlement of shareholders only.
3. *Stakeholder theory is overlooked*. Capitalism miscarries in its broader regard for non-stockholder stakeholders (Freeman, Wicks and Parmar, 2004; Gibson, 2000; Helsin, 2008;

Phillips, Freeman and Wicks, 2003; Sundaram and Inkpen, 2004) which may be categorically contrary to CSR.

Of the second literature sub-group. Literature supporting convergence of profit-maximizing behavior with CSR encompasses two further divisions: (a) *Cost-Benefit not fully modeled or tested*. Convergence is beneficial to stakeholders but the costs of implementation and maintenance may exceed economic benefits which may be derived. The literature implies that the practitioner will work this out (Carroll, 1991; Freeman and Phillips, 2002; Schwab, 2008; Slaper, 2011; Sprinkle and Maines, 2010); and (2) *Lack of actionable implementation processes*. Having survived whatever cost-benefit analysis a practitioner engages in determining the economic advantages of CSR for stakeholders, the literature is generally silent as to prescribing specific implementation models (Brammer and Pavelin, 2004; Gallego-Alvarez, Prado-Lorenzo and Garcia-Sanchez, 2011; Hatch and Schultz, 2002; Laughland and Bansal, 2011; Preuss, 2011; Sridhar, 2012; Waldman and Siegel, 2008).

Of the third literature sub-group. This sub-group of literature offers variations of actionable implementation processes shelf-ready (Bellow, 2012; Latham, 2013; Moltenui, 2006).

Why This Proposed Research is Important

A business organization must continuously innovate to remain relevant in the marketplace. Such innovative efforts are required, pursued, and largely driven by customer requirements as well as mandated by investors who seek to maximize profits. The frontier of innovation may be conveniently summed up by the five Schumpeterian combinations which include (1) new products or services or a new quality of an existing product or service; (2) a new method of production; (3) the opening of a new market; (4) development of a new source of raw materials or intermediate goods inputs; and (5) new methods of organizational structure (Schumpeter, 1911/1983). For convenience, innovation itself may be regarded as interchangeable with the profit maximizing concept.

Research Questions

I. How can CSR be integrated at every step of the firm's value chain?

II. Once integrated, does this integration modify how the firm presents itself to present and potential customers?

III. Once presented, how does the integration support the firm's financial and economic profits as well as maximize the firm's expressed social responsibility?

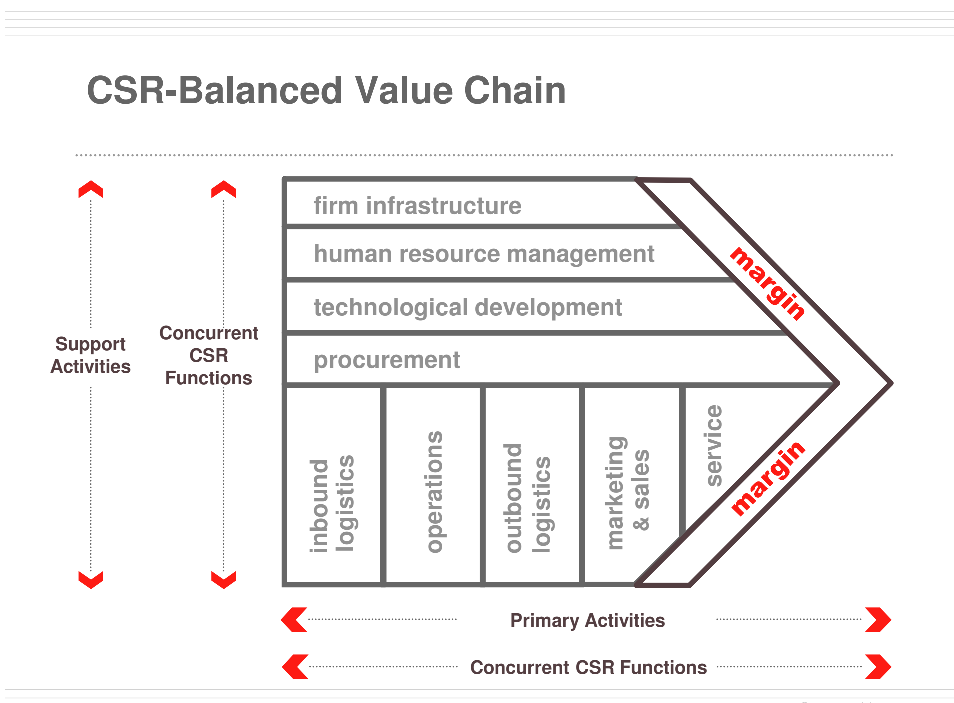
Research Limitations

There are at least two responses to the argument that CSR may represent a cost center rather than a profit center, one response being financially-oriented and the other market-oriented: (1) because CSR is to be implemented at every step of the value chain, CSR becomes a linked activity throughout the entire chain, thereby lowering its imputed cost at any given separate step in the value chain; and (2) CSR may be presented to the marketplace as a competitive advantage – a unique differentiation between a firm having implemented CSR as against a firm which overlooks it.

The counter argument against both of these responses which support CSR may center on the cost of maintaining that CSR initiative over time. But rapidly, such cost-benefit relationships must include a risk-reward analysis; in other words, what risks become elevated if CSR is ignored? While these risks are not necessarily eliminated in a CSR initiative, the financial effect of some risks may be mitigated through an insurance regime.

A Proposed New CSR-Balanced Value Chain

This new proposed research features a modification of the Porter (1985) value chain which comprehensively integrates formal CSR activities. Porter's model provides a suitable baseline framework owing to its already-explicit direct, indirect, and quality assurance activities. These framework elements are present in the primary activities of the firm as well as support activities. The proposal herein offered calls for a modification to Porter such that CSR activities are fully integrated at every primary and support activity. Porter indicates that every industry will have a unique value chain whereby each generic activity can be further divided into discrete activities. In this proposed augmentation, the proposed number of discrete CSR activities themselves may expand to a large number depending on the complexity of the firm's overall value chain. As the number of value chain activity categories increase, so will the number of concurrent and fully integrated CSR activities.



It is useful to note that Porter (1985) refers to value chain activities as building blocks for technology and cost strategies as well as competitive advantage, but does not explicitly recognize or integrate a concurrent order of corporate compliance or a formal social responsibility regimen. The absence of this vitally important integration represents a missed opportunity with respect to

Porter's intended technological, cost, and competitive strategies. The concurrent CSR functions to be integrated with Porter may include (but not limited to) the following (Walker, 2005):

- To support and respect the protection of human rights;
- Not to be complicit in human rights abuses;
- To uphold freedom of association and the effective recognition of the right to collective bargaining;
- To uphold the elimination of forced, compulsory and child labor;
- To uphold the elimination of discrimination in employment and occupation;
- To support a precautionary approach to environmental challenge;
- To undertake initiatives to promote greater environmental responsibility;
- To encourage the development and diffusion of environmentally friendly technologies; and,
- To work against all forms of corruption.

Each firm must design its own CSR portfolio, recognizing that each element of such a portfolio is not intended to be a minimal criteria to prevent regulatory scrutiny or criminal prosecution, but must be affirmative in the sense of being proactive whereby the same emphasis expended on innovation for competitive advantage in the traditional value chain must now include affirmative and proactive innovation toward maximizing CSR, arguably in itself a competitive advantage.

It is not necessarily true, however, that compliance equates with social responsibility for at least the following reasons: (1) the reach of law or regulation at any level of government cannot conceivably address all individual or corporate behavior and therefore some aspect of corporate conduct will be unregulated and subject to human discretion where such discretion may or may not be socially responsible; (2) even if written laws or regulations could reach the full spectrum of all human behavior, there will likely be some level of non-compliance and therefore a shortfall of social responsibility as would be the intention of those laws to shape a certain social outcome; and (3) while compliance with specific law or regulation is more or less intended to be objective, the concept of social responsibility is arguably subjective, but compliance itself is also open to discretion given the burdens experienced by system of courts which are called upon to adjudicate differences in regulatory interpretation. Therefore, neither "compliance" nor "social responsibility" can be considered constants and attempts to view them as equalities fails.

It is also useful to consider how the practitioner can or should function under conditions where there is a constant threat of both the concept of legality, as well as the concept of social responsibility. It is useful to consider Latham's (2013) Transformation to Performance Excellence (LTPE) framework which may help to improve the chances for performance excellence transformation. Latham's LTPE framework consists of 35 concepts in five categories: (1) forces and facilitators of change; (2) leadership approaches; (3) leadership behaviors; (4) individual leadership behaviors; and (5) organizational culture characteristics. In drawing back to discussions on "compliance = social responsibility," Latham's model recognizes the place for accountability - holding people accountable - which would embrace specific legal compliance as well as accountability for leaders and followers more broadly.

Relationship of Proposed CSR Balanced Value Chain to Proposed Research Questions

The practitioner must balance the firm’s responsibility for free market and financially profitable innovation with its social responsibility. Accepting this imperative again invokes the central research questions previously offered and here restated:

IV. How can CSR be integrated at every step of the firm's value chain?

V. Once integrated, does this integration modify how the firm presents itself to present and potential customers?

VI. Once presented, how does the integration support the firm's financial and economic profits as well as maximize the firm's expressed social responsibility?

The proposed research relies on a qualitative approach.

Conclusion

Archetypes which imply that profit-maximization behavior by firms consistently trumps CSR must be set aside. When incorporating CSR at every step of the value chain, CSR becomes a linked activity throughout the entire chain, thereby lowering its imputed cost at any given separate step in the value chain. Having been incorporated in the firm's value chain, CSR becomes a competitive advantage – a unique differentiation between a firm having implemented CSR as against a firm which overlooks it.

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