Social Innovation, Social Reputation and Competitive Advantage Achievement

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Abstract

By analyzing two different fields such as Social Innovation and Social Reputation, this work suggests the economic viability, which under certain circumstances, have business initiatives characterized by its social argument. It argues that if corporate social reputation is accompanied by socially innovative business activities, the proposed ethical argument will be more authentic, credible and of particular interest to consumers.

Introduction

The Business Management looks with skepticism social entrepreneurship initiatives. It generally argues that companies should have the sole purpose of maximizing shareholder wealth, whereas social approaches are more appropriate for government actions or charitable organizations (Friedman, 1962).

In the approach proposed here we suggest that under certain circumstances, the inclusion of ethical criteria to business activities can be a source of competitive advantage. It is argued that the fit between the two dimensions (social and economic) can be done from Social Innovation, understanding Social Innovation as the incorporation of ethical arguments to products, processes and organizational modes of the company.

Social Innovation in this sense will strengthen the company's social reputation, enabling a strong position in certain market segments especially sensitive to Corporate Social Responsibility.

In the following sections, we'll discuss in detail the concepts of Social Innovation and Social Reputation in its role of complementary assets within the framework of the Resource-Based View.

Social Innovation

The concept of Social Innovation is directly linked to the idea of change. The systemic changes offer many opportunities for Social Innovation and the societies at large are immersed in learning new habits and rules. New forms of efficiency and new ways of seeing and doing things are discovered.

Nowadays, our society is experiencing a time of change, the paradigm shift towards Sustainable Development, defined by the Brundtland Commission (World Commission on Environment and Development, 1987) in its report to the United Nations as the kind of development that meets the needs of present without compromising the needs of future generations.

Social Innovation is an emerging field that remains under-researched. Very few are the efforts to classify and organize the various contributions. In this sense, is very interesting the contribution carried out by Pol and Ville (2009), which discusses some of the definitions given to the concept of Social Innovation elaborating a four group classification (understanding the concept as linked to institutional change, to social purposes, to the public good or to the satisfaction of needs not covered by the market). Drawing on this first contribution, this paper proposes a simpler classification as we understand that there are really two basic orientations in the different meanings given to the term.

Thus, some authors associate the term Social Innovation with the idea of institutional and social change (Lewin, 1947; Scherhorn et al., 1997; Duchin, 1999, Mumford 2002, Martin, 2006, Hamalainen and Heiscala, 2007, Centre for Social Innovation, 2008). This approach provides a wide-ranging concept, since it does not focus only on meeting specific social needs but also understands the term as a necessary instrument that accompanies the change in values, ways of acting and thinking and institutions. Understanding the company as an agent of social change (Bies et al., 2007), one can see that this conception of Social Innovation is perfectly compatible with the entrepreneurial phenomenon.

In contrast, other authors, in defining Social Innovation emphasize its social mission (Taylor, 1970; Gabor, 1970 Forum on Social Innovation (OECD); Mulgan, 2006; Phills et al., 2008, Pol and Ville, 2009). So, they argue that Social Innovation's mission is to satisfy unmet social needs. This conception does not explicitly links social innovation with the idea of change, meaning that the Social Innovation fulfill its mission if social needs are met, even if this does not mean a broader social change. This emphasis on the social aspect of the term, place it near from philanthropic activities and away from the idea of economic benefit.

Once exposed the different approaches given to the term, this paper will focus on the development of the former. That is, starting from the idea of *Social Innovation and change* we will try to reconcile the achievement of economic returns with the Sustainable Development paradigm mentioned above.

The authors that associate the term Social Innovation with the idea of *institutional and social change*, provide different definitions of the concept (Table 1). Lewin (1947) conceives the researcher as a strategist for Social Innovation and demands the production of theories for the transformation of society.

From another point of view, changes in lifestyles or behavior of consumers are often defined as Social Innovations (Scherhorn et al., 1997).

Duchin (1999) argues that the idea of Social Innovation is new and requires not only new technologies but also new lifestyle dynamics.

Mumford (2002) considers the Social Innovation as the generation and implementation of new ideas about how people should organize their interpersonal activities or social interactions to get one or more common goals. It adds that the Social Innovation can lead to the development of new business practices, processes and procedures.

This view is consistent with Martin (2006) who stresses that social experimentation is beneficial for Social Innovation and claims that the biggest obstacle for Social Innovation is the drag created by entrenched interests.

Also emphasizing the idea of change, (Hamalainen and Heiscala, 2007) understand Social Innovation as the changes in social structures that enhance the social and economic performance and the collective power of resources. These authors treated separately the Social Innovation and the Technological and Economic Innovation. To them, technological innovations are conceived as new and more efficient ways to transform the material reality and economic innovations are those that put technological innovations in the service of production value.

Also, on the same line, mention must be made to the definition given by the Centre for Social Innovation, that trying to define the concept, understands as Social Innovations those new ideas that address current economic, social, cultural and environmental challenges to benefit the planet and the people who inhabit it. Thus, authentic Social Innovations are the ones that change the system by altering the perceptions, behaviors and structures. (Centre for Social Innovation, 2008).

Table 1: Social Innovation as change

AUTHOR	DEFINITION
Lewin (1947)	Researcher as a strategist for Social Innovation
Scherhorn et al. (1997)	Social Innovations as the changes in lifestyles or behavior of consumers
Duchin (1999)	Social Innovation as new technologies and new lifestyle dynamics
Mumford (2002)	Social Innovation as the generation and implementation of new ideas about how people should organize their interpersonal activities or social interactions to get one or more common goals
Martin (2006)	Social Innovation associated with social experimentation.
Hamalainen y Heiscala (2007)	Social Innovation as the changes in social structures that enhance the social and economic performance and the collective power of resources
Centre for Social Innovation (2008)	Those new ideas that address current economic, social, cultural and environmental challenges to benefit the planet and the people who inhabit it

As mentioned above, this orientation is typical of companies who understand the changes as business opportunities. It is therefore considered that the fact of adding a social dimension to the value proposition of the company offers a new frontier in competitive positioning (Porter and Kramer, 2006).

Among the most important contributions linking social innovation, change and business opportunities are clean technologies, strategies for pollution prevention and innovations aimed at Sustainable Development (Nidumolu et al., 2009), which emphasizes the idea of change in the firm's relationships with both its natural and social environment. Thus, the first company to understand this need for change will be best placed to drive tomorrow’s economy.

In particular, clean technologies that enhance the use of renewable energy and strategies for pollution prevention are based on the consideration that one of the main aspects to take into account in the development of new resources and capabilities will be the challenges and limitations derived from the natural environment (Hart, 1995). It emphasizes, therefore, innovation, continuous improvement and cost minimization. Thus, it is argued that prevention strategies, as opposed to emission control strategies (focusing on the use of expensive technology to control them) are based on continuous improvement in reducing emissions through recycling, material replacement or process innovations. In the same vein, other authors consider that pollution prevention can lead companies to achieve significant cost reductions in relation to competitors (Hart and Ahuja, 1996) and improve productivity and efficiency (Nidumolu et al., 2009). Thus, as stated by Hart (1995), there is empirical evidence that active environmental strategies resulting in the development of unique capabilities with high competitive value (Sharma and Vredenburg, 1998).

Therefore, after consideration of the literature on Social Innovation and the various proposals that are encompassed within it, we propose our concept of Social Innovation. Thus, from our point of view, we understand the Social Innovation as the **combination of innovative activities carried out by the company with the potential to promote social change. This**

social change is expressed through the incorporation of ethical arguments to the products, processes and organizational modes of the company and results in changes in consumer behavior, changes within the enterprise and changes in the company's relationship with the social and natural environment.

Social Reputation

Corporate Reputation has been defined in different ways and some authors have called for clarification of the term (Mahon, 2002; Wartick, 2002). As stated by Barnett, Jermi and Lafferty (Barnett et al., 2006) Corporate Reputation definitions can be organized into three groups. In a first group are those authors who consider the Reputation as the perceptions coming from company outsiders. Being Corporate Reputation the aggregate of those perceptions (Fombrun and Van Riel, 1997; Post and Griffin, 1997; Fombrun, 1996). In a second group we find those authors who include inside the Reputation the observers and firm stakeholders assessments (Mahon, 2002; Wartick, 2002). Finally, the third group refers to those authors who defined the Reputation as a significant intangible value for the company. This group includes references to the Reputation as a resource, financial or economic asset (Fombrun, 2001).

Of the three groups analyzed are most authors who choose to understand the Reputation as an assessment. That is, as the collective external stakeholders value judgments based on the assessment of the financial impacts, social and environmental attributed the company over time (Barnett et al., 2006).

As follows from this definition, and according to Martin de Castro et al (2006), Deephouse (2000) and De Quevedo (2001), the two elements of Corporate Reputation are Business Reputation and Social Reputation (understanding the term "social" related to the positive social and environmental impacts of business activities).

It will be therefore, this second element –social reputation- the object of our analysis. We shall argue that **Social Reputation together with Social Innovation (business activities with ethical argument inside) can lead companies to achieve competitive advantage**.

As we have seen, the Social Reputation of the company, taken as one of the dimensions of reputation (Zyglidopoulos, 2001) has already been taken into account by the literature.

Fombrun and Shanley's (1990) seminal study shows empirically that social sensitivity measured by the level of charitable giving is positively related to reputation. In the same vein Williams and Barrett (2000) provide further evidence of the relationship between philanthropy and reputation, being this relationship stronger in the companies that most frequently have violated environmental and health and safety regulations. That is, charitable donations have "healing effects."

However, other authors argue that the incorporation of social and ethical aspects to business activities should not be done in isolation with specific actions, but must be part of the strategy of the company. At this regard, the role of the Stakeholder Theory (Freeman, 1985), has been very helpful to the consolidation of this strategic vision. So, as Donaldson and Preston say (1995), it is expected that reputation can improve with social responsibility activities that help managers to maintain constructive relations with its stakeholders. In this sense (Frooman, 1999) considers that the understanding of what the stakeholders want is vital to meet their needs, so that the total effect of socially responsible activities on the reputation depends on the social dimension under consideration and in the sector where the company is located. Being the strategic use of social and ethical aspects a factor that increases the company's reputation (Porter and Kramer, 2002).

Nevertheless, as Brammer y Pavelin (2006) says, to demonstrate a high social responsibility in areas that do not have any relation with the activities of the company can harm the

company's reputation. It is therefore vital an appropriate fit between the socially responsible activities, characterized by a strong ethical argument, and the business environment in which the company operates, to produce an improved reputation.
Having analyzed the concepts of Social Innovation and Social Reputation, in the next section we will show the theoretical arguments underlying their complementary use.

Resource-Based View and Sustained Competitive Advantage

The Resource-Based View comes in response to some concerns (Barney, 1986; Barney, 1991) that stressed the importance of firm's endogenous factors as the main cause of higher returns. According to this point of view, competitive advantage lies within the business and the resources it possess and/or controls. Barney (1991) is the first one that presents a complete theoretical framework on the Resource-Based View, which is already considered one of the main theoretical trends within the field of Business Management (Amit and Schoemaker, 1993).
The basic assumptions of this theory are: a) Companies within an industry or group may be heterogeneous with respect to the strategic resources they control; b) These resources are not perfectly mobile between firms and thus heterogeneity can persist over time.
Therefore, companies can achieve sustainable competitive advantages by implementing strategies that exploit their internal strengths; while at the same time can respond to environmental opportunities and threats.
As Barney (1991) suggest, resources and capabilities to be a source of competitive advantage must be valuable and rare. Furthermore, in order to maintain the competitive advantage over the time, these resources and capabilities will also be imperfectly imitable (due to unique historical conditions, causal ambiguity and social complexity) and irreplaceable.
From a slightly different approach Amit and Schoemaker (1993) argue that firm's resources and capabilities must be strategic for competitive advantage achievement. In order to be strategic, resources and capabilities must be limited, relevant, durable, non-transferable, inimitable, irreplaceable, and complementary and subject to company appropriation.
At the empirical level, some studies have attempted to measure the above attributes of resources and capabilities to further correlate with measures of business performance Henderson and Cockburn (1994). The main conclusion that can be drawn from these studies is that companies that develop their strategies on path dependent assets, which are characterized by causal ambiguity, social complexity and intangibility, perform better than to those which develop their strategies based solely on tangible assets (Barney, 2001).
Finally, we will refer to authors who focus their work on the sustainability of competitive advantage, which constitutes an essential part of our proposal. Thus, Dierickx and Cool (1989) mention the non-imitation and non-replacement of firm's strategic resources stock, stressing the importance of the stock accumulation process. Reed and DeFillippi (1990) emphasize the concepts of causal ambiguity and barriers to imitation, so the higher the tacit, complex and specific nature of resources and skills, higher will be the casual ambiguity and the barriers to imitation. Peteraf (1993) refers to the concepts of heterogeneity and imperfect mobility of resources and the ex-post limits to competition.
Thus, following Peteraf (1993) we consider that the complementary deployment of assets (in reference to assets that must be used in conjunction with others or have higher economic value when used together) decisively contributes to the sustainability of competitive advantage, being at the same time an isolating mechanism (Rumelt, 1984). As we will show below, the joint use of Social Innovation and Social Reputation allows the company to maintain an advantageous position, to appropriate rents that might otherwise go to competition and to access to new customers from a privileged position.

Proposed Model

The difficulty of imitation increases the strategic value of the assets the company owns (Amit and Schoemaker, 1993). Yet owning high-value assets is not enough, but it is also necessary to deploy them properly. Thus, although, as we have argued, both the Social Innovation and Social Reputation can be a source of economic returns for the company treated individually, its complementary deployment provides a combined value greater than that obtained as a result of separate treatment.

Following Barney (1991) we consider that both the Social Innovation and Social Reputation are valuable and scarce assets. Valuable for its ability to generate income for the company and scarce because the resources and capabilities which support both the Social Innovation and Social Reputation are based on-difficult to find-values with strong ethical argument inside.

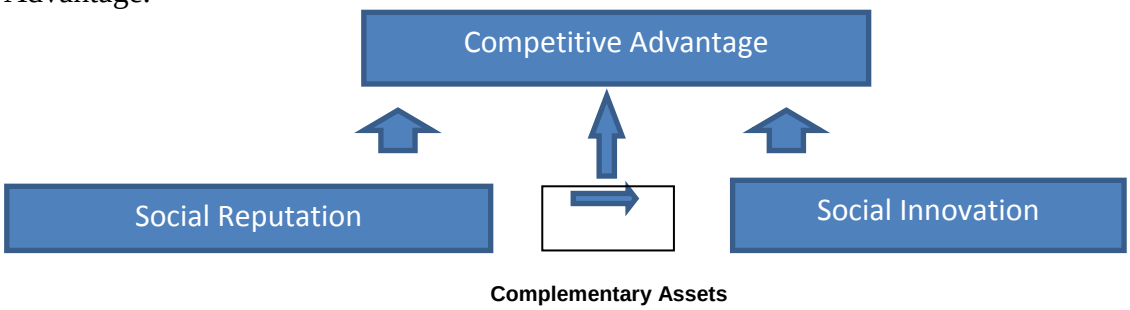
However, the above is true, the value of Social Innovation and Social Reputation lies in its complementary deployment. Complementary deployment that allows income appropriation hinders imitation and provides the company with new business opportunities.

Thus, being the Social Reputation the complementary asset associated to products or processes characterized by its ethical argument (what we call Social Innovation), and even when competitors are able to replicate these processes and products, the Social Reputation factor would allow the appropriation of quasi-rents that otherwise the company would lose to competitors. In other words, assuming that quasi-rents are the difference between the best use and the second best use option for a given resource, if competitors are able to match our ability to create ethically responsible products and processes, consumers will continue choosing our company in their purchasing decisions because of that complementary asset called Social Reputation. In short, Social Reputation means **credibility**.

In regard to the difficulty of imitation as a result of the complementary deployment of these assets, it is appropriate to mention the concept of isolating mechanism or ex-post limits to competition (Peteraf, 1993).

Thus, we understand the reputation as an isolation mechanism, we argue that Social Reputation jointly deployed with Social Innovation, constitute also an isolation mechanism because it depends on the actions carried out during a period of time. Social Reputation, as a path dependent resource is difficult to perform and places the firm in an advantageous position (Figure 1).

Figure 1. Interactions between Social Innovation, Social Reputation and Competitive Advantage.



Finally, with reference to the new business opportunities that the complementary deployment of these assets can bring to the company, we consider interesting to note, according to Teece (1998), that as the main asset demand grows, also will the demand of the complementary asset. Thus, if the demand for products with ethical argument grows, so will the demand for social reputation, placing the firm in an advantageous position.

Following the same argument, we consider interesting to note that complementary deployment of assets can be itself a source of new business for the company, because inimitable market positions may be due to preferential access to certain customers Ghemawat (1986). That is, build a certain Social Reputation based on the incorporation of ethical arguments in our products and processes, can allow preferential access to customers in related markets. This may be the case of companies that use their Social Reputation to enter into the new markets created around Sustainable Development (Nidumolu et al., 2009), such as waste treatment, recycling services or environmental impact analysis, just to name a few.

Conclusion

The main conclusion that can be obtained from this work is that business initiatives characterized by its ethical argument can be an important source of economic returns if they are related to the activity of the company. To the extent that the market will demand a greater commitment of businesses to Sustainable Development, companies can exploit the joint deployment of the binomial Social Innovation-Social Reputation and consequently achieve market positions difficult to imitate as well as future business opportunities.

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