Sustainability and Social Innovation

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1 Introduction

Since the publication of *Our Common Future* by the World Commission on Environment and Development in 1987 and Elkington's (1997) *Cannibals with Forks: The Triple Bottom Line of Twenty-First Century Business* 10 years later, it is widely accepted that sustainability has three dimensions: an economic, an environmental, and a social one.

Out of these three dimensions or pillars, as they are sometimes known, the social one has received the least interest, also when it comes to reporting (Fifka and Drabble 2012). While the economic dimension seems to be the overriding pillar, the ecological one has also been given considerable attention, especially with regard to the development of new environmentally friendly technologies. Thus, in this regard, a mutual interdependency between sustainability and its ecological dimension can be observed. On the one hand, ecology can be regarded as one vital element of sustainability. On the other hand, sustainability can be seen as a driver for eco-friendly technologies, as it (be it on a company or government level) encourages the drive for the respective innovation in the environmental arena. On the company level, it has also been argued for a considerable period of time that environmental awareness and eco-friendly innovation lead to competitive advantage (e.g., Welford and Gouldson 1993; Azzone and Bertele 1994; Dechant et al. 1994).

In contrast, the possibility of sustainability as a driver for social innovation has been discussed to a much lesser extent, though pioneers like Peter Drucker had already elaborated on the subject in the 1980s. Drucker (1984) argued for turning social problems into business opportunities: "The proper social responsibility of business is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth." Though he sees opportunities arising due to the scope of addressing existing social problems, the motivation, according to him, is grounded in increasing economic benefit through innovative business

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practices and not the pursuit of social innovation. Rake and Grayson (2009) provide a more recent dimension to the capability of CSR being a catalyst which could be used to turn social problems into social opportunities. These two scholars and senior business executives argue that the issues we face as a global economy and increasingly as a global society are very real and indeed very urgent but these challenges if managed sustainably could turn out to be great sources of social opportunities for everyone.

It is the purpose of this chapter to discuss how sustainability can perform this function. Thus, the central question we pursue is how sustainable corporate behavior can create or lead to social innovation. Before we discuss this question, it is necessary to define what the phenomenon of social innovation constitutes and how it could create sustainable value.

2 Social Innovation

Social innovation is a broad term that defies a singular understanding and has been discussed from the perspective of various academic disciplines for a considerable time. Moreover, the borders to related concepts such as social entrepreneurship or social enterprise cannot be clearly drawn, which we will discuss below.

2.1 Defining Social Innovation

Despite the existing differences, there are some commonalities in the perception of what social innovation means. There is general agreement on the idea that social innovation refers to innovations that have been made with the explicit intention of finding solutions for current social problems or future challenges. In a narrow sense, social can be seen as relating to human interaction. Thus, social media could be considered a social innovation, as it has changed how people communicate. In a broader and more normative sense, social can mean "good for society and its members". Disagreement can arise as there will be different opinions on what is good for society. Moreover, social benefit is difficult to measure or quantify. Consequentially, there is dispute on when an innovation, e.g. of technical nature, can be considered a social innovation. Social media is undoubtedly a technical innovation, but whether it has created a social benefit or not is subject to opinion. Regardless of that potential dispute, there is widespread agreement that social innovation does not only aim at changing how people communicate, but at generating benefit for society in its entirety. This is reflected by a definition by Adams and Hess (2011), who point out that "innovative social action can create social value beyond the capability of existing systems."

Furthermore, there is dispute on who should benefit primarily from social innovation. As pointed out above, Drucker emphasized that addressing social problems should be seen as business opportunities, and thus focused on the benefit of business. Young (2011) in turn focuses on the members of society who make use of innovation. He defines social innovation as "a novel mechanism that increases the welfare of the individuals who adopt it compared with the status quo." Phills et al. (2008) even takes this understanding a step further and explicitly claims that the benefit must fall to society as a whole and not only private individuals: "A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals." Thus, in contrast to the understanding of Drucker, society in its entirety should be the benefactor of social innovation and not private individuals, who can be seen to include companies or their owners and shareholders; in other words: stakeholders should be the benefactors. Nevertheless, even this view displayed by Phills et al. (2008) does not exclude the possibility that a company should benefit from social innovation, but it should not be the primary or sole motivation behind activities directed towards social innovation.

It must be pointed out that there is usually no trade-off between individual (economic) benefit and social value, as the latter is often created with the drive for commercial innovation in mind. Pharmaceuticals are a prime example. They allow the respective companies to generate profit and at the same time improve public health. Thus, in many cases, social problems are addressed through market mechanisms, like Drucker had in mind. However, when markets fail, which usually happens in the case of public goods, then traditional commercial innovation does not contribute to finding solutions, as incentives are non-existent, and social innovation becomes necessary (Phills et al. 2008).

2.2 Social Innovation Versus Social Entrepreneurship and Social Enterprise

Another question that arises is what sets social innovation apart from the concepts of social entrepreneurship and social enterprise? Is it something new, (if we choose not to say innovative), in comparison to what is currently available? Social entrepreneurship, like the traditional concept of entrepreneurship, focuses on the personality of the entrepreneur and the respective qualities that are needed in order to be successful, like creativity, ambition, resourcefulness, and perseverance (Bornstein 2007). Social entrepreneurs can be defined as "nonprofit seeking executives who pay attention to market forces without losing sight of their organizations' underlying missions and seek to use the language and skills of the business world to advance the material well-being of their members or clients" (Dees et al. 2001). Likewise, social enterprise places an emphasis on the organizational dimension and the necessary structures to set up a successful social venture. Both social entrepreneurship and social enterprise aim at creating social value (Elkington and Hartigan 2008).

The two concepts essentially stem from the nonprofit sector and thus neglect companies and public organizations, with the exception of venture philanthropy, where a business or a business entrepreneur establishes or supports a social enterprise. As Phills et al. (2008) correctly point out, social entrepreneurs and enterprises are important for delivering innovation, but "they are not the only, and certainly not always the best, ways to achieve these goals." Social innovation can also originate from profit seeking and public organizations. Due to their resources, networks, and experience they might even be better suited to generate social innovation.

Thus, social innovation does not remain confined to one sector of society – government, business, and non-profit/civil society – but encompasses all and often occurs out of a cooperation between one or more of these sectors. As a hybrid model, it takes economic and social considerations into account, with the focus being upon the latter. As sustainability is a concept also incorporating these two dimensions, it can be seen as a natural driver of social innovation.

3 Sustainability as a Driver of Social Innovation

In this section we will discuss and give examples of how sustainability can drive social innovation. As pointed out in the introduction, there is wide agreement on sustainability being built on an economic, social, and environmental pillar. Thus, individuals or organizations that pursue sustainable behavior attempt to achieve progress in one dimension, while at the same time also making progress in another or at least not worsening the conditions to be found in the other dimensions. Reduced economic profit or benefit may be accepted as a consequence.

As we have agreed on the social dimension being central to social innovation, sustainability could be seen as leading to social innovation if the respective behavior or action improves the social conditions in a society and improves or at least maintains the status quo with regard to the economic and environmental dimensions.

A prime example of when sustainability leads to social innovation is the establishment of fair trade networks. It also shows how the involvement of different groups from different sectors of society – the farmers as producers, the workers as employees, the buyers as vendors, an NGO as labeling organization, and finally the consumers – can produce sustainable social innovation. Fair trade as a principle is based on modified market-principles and a social movement. Its aim is to improve the situation of farmers and farm workers, mostly in third world countries, and to foster agriculture under environmental premises. The central principle of fair trade is that producers and the cooperatives they are organized in receive a price premium for their products if they meet certain standards determined by FairTrade Labeling Organizations International (FLO), a labeling organization. The buyer, usually a large trader or vendor from an industrialized country, agrees to pay the premium, which is then passed on fully or partially to the producer (Nicholls and Opal 2004).

The vendor and the consumer agree to pay the social premium because it will be used for socio-economic development purposes in the producers' countries, e.g., in the construction of health care facilities, clean water supply, schools, sanitation, and other community projects (Elad 2012). The social premium which the retailer and final consumer pay would also be used to address environmentally related factors in the farmers' country. Another noteworthy effect of the "social premium" is that it goes to the farmer directly to enable him to improve his and his family's social and economic situation or to the cooperative that can use it for investments in schools or hospitals and other social services. Under traditional market principles, where the price is the overriding determining factor, such transactions would not occur. Still market principles exist as no participant is forced to buy or sell the product at a higher price and can also choose from non-labeled alternatives. The labeling is usually provided by non-governmental organizations, among which Fairtrade International is the most famous one. The respective standards are determined in a multi-stakeholder process, and the certification is then provided by the sister organization FLO-CERT.

The idea to support small farmers, who otherwise suffer from insufficient negotiating power when dealing with large buyers, through a guaranteed price premium – usually 10 % above the regular market price – has found wide acclaim. There are now 827 Fairtrade certified producer organizations in 58 countries, which represent more than 1.2 million farmers and workers. Fair trade certified sales amounted to app. €3.4 billion (Fairtrade International 2012).

Thus, the cooperation from different actors creates social and environmental benefits through an innovative model of sales and purchases. What is characterized here is that an existing social progress was not addressed by creating a social enterprise or through governmental intervention, but by designing novel market structures through the participation of all actors involved along the value chain.

Another prime example for social innovation is microfinance. The core idea of microfinance, or to be more specific microcredit in our case, is to provide loans to people who otherwise would not be able to obtain a loan because they lack the necessary collateral, do not have a credit history or stable employment, or simply do not have access to financial services in general. The aim is to support the creation of businesses and, thus, to create income and reduce poverty. Moreover, microcredit can be seen as a way to improve education and health, and empower the poor and also women in some of the less advanced countries of the world where they are still under-privileged.

Modern microcredit is generally regarded to have begun with the founding of Grameen Bank by later Nobel Laureate Muhammad Yunus in Dhaka, Bangladesh in 1976 (Islam 2007). Thus, it has started out as a form of social entrepreneurship as Yunus invented a new business model that created considerable social benefit. However, when microlending expanded, it turned into a social innovation, as it did not remain confined to newly created organizations specialized in microlending. Today, microcredit is also provided by commercial banks, governmental organizations and even by individuals who can engage in lending through platforms such as Kiva or Zidisha. Traditionally, credit was almost exclusively provided by commercial banks, which only lent to customers that would meet certain requirements on collateral or income. The innovation here is twofold. First, lending is now being done by actors from all three sectors of society. Second, credit is given to people who would not have been able to obtain a loan under traditional standards.

Though the effects of microcredit are disputed, it is an excellent example for how traditional economic processes can be changed into social opportunities and how social benefits can be created through innovation, when different sectors of society participate.

4 Conclusion

Despite the great contribution that social innovation can make to address social problems, it should not be regarded as a panacea. It is not a cure for all social ills. Social innovation can hardly be generated in the same way as technological innovation, which can be made through continuous and systematic research processes. Social innovation, however, is created through individual ideas that are capable of being applied on a larger scope. This application or adaptation process is a difficult one, as social innovation will be most effective when many different actors from different sectors of society participate. This means that the reluctance among important groups will endanger or even prohibit the potential successes of social innovation. Fair trade would not exist if consumers were unwilling to buy the products, even if producers and vendors were eager and ready to pursue the idea. Microfinance would be much less effective if commercial banks had not joined in, because non-profit organizations have neither the resources or the organizational skills and capabilities to provide loans on a wider geographic and financial scale. Therefore, we believe there are multiple ways in which social innovation can contribute to progress in our ever changing world.

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