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Influence of Corporate Social Performance In A Country's Innovation Capacity

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Abstract: In recent years, companies have enlarged their scope of responsibilities, acknowledging their social inherent characteristic; in order to meet the demands from consumers and governments alike. However, it has not yet been sufficiently assessed what the impact is for the environment and the economy of the region and/or country. This paper aims to shed light on this matter, establishing links between company's social performance and key variables that contribute to economic improvement.

Keywords: *Innovation, Sustainability, Corporate Social Performance*

Introduction

Countries with a higher socio-economic development base their growth in a strong economy, together with high institutional support from private and state-owned organizations. Companies operating in such contexts tend to base their factor of differentiation on the creation of added value in their product and/or service offering. The basis for generating such value relies in constant innovation, which provides society with elements that have an inherent valuable component, satisfying each social group's needs.

In addition, in order to have an optimal innovation-creation process, it is essential to have high knowledge-generation and transmission of such knowledge. Because of the aforementioned, it is a prerequisite to have constant feedback throughout the process in which new ideas are incorporated to every discipline. As a consequence, it is evidenced that knowledge is the key element enabling socio-economic progress, especially in those countries, which in comparison with other nations in the world, have a high socio-economic development.

Societies in developed nations are highly aware of the actions of its rulers, companies and organizations, increasingly demanding more accountability from them. Because of this, it becomes of a greater importance for organizations and companies to take into account their social performance and considering in their strategic business planning elements such as environment impact, cultural environment, social worries, etc. Furthermore it is of high relevance to disclose this information accurately, and to invest and capitalize innovation, to build a sustainable competitive advantage.

The present study assesses the case of Spain, a developed European economy which has seen a high economic growth during the 90s and early 2000s yet since the economic crisis its economy has been having trouble to recover. Specifically, Spain's main industries are explored, as well as the actions undertaken by those companies with a higher impact in the economy.

Firstly, the paper evaluates the context in which Spain operates, and the variables that are most relevant for Corporate Reputation in the Spanish society. Following, an analysis is conducted concerning the links between the different economic agents that create the knowledge triangle that is the organizations that foster and drive research, development and innovation. Lastly, conclusions and future lines of research are derived.

Literature Review

Developed countries' economic model

Economic growth on a global level can be achieved through two strategies: quality or prices. Depending on the conditions of each country, availability of natural resources, training of the population, among other variables.

In the case of Europe, specifically the European Union, most of the countries have a high life standard, high quality of education, strong currency, ruling out the possibility to offer products and services at low cost. This is due to the fact that other regions have better natural resources, at lower prices, and currencies that are more attractive when considering exchange rates, thus making the EU a non-competitive agent in terms of price.

However, because of the high degree and historical focus the region has placed on advancement of theoretical and practical knowledge, it has an ideal background to focus competitiveness in creating singular products, with a high quality and differentiating factor. In this context, through research and development, new products, services, or methods can be created that contribute to an improvement in social welfare and individual's lifestyle. Other countries who also have a high economic development also tend to focus their competitiveness on creating advantages through unique product/service offering.

This strategic decision has been evolving as developed economies grow and the makeshift of their internal society also is modified. In the 19th and early 20th centuries, most of them were industrial societies, focusing on the improvement of technology for production and being themselves the ones producing goods. In spite of this, during the 20th century, advancements in technology and productive outsourcing, forced developed economies to shift their focus from an industrial model to a knowledge-based economy (Foray and Lundvall, 1996).

Knowledge-based economies

In the abovementioned context, economic growth is generated through the creation of knowledge, its capitalization and exploitation in forms of new products or services that improve individual's life quality. In this context, it should be noted that knowledge-creation is as important as how it is transferred and diffused in society, and the availability of information.

Because of this, the economy is built upon knowledge-based communities (KBC), where companies, research agents, the government, and society in general cooperate and interact to discover which are the areas of interest for consumers and to develop products/services that contribute to such (David and Foray, 2002). Hence, these communities comprise a group of individuals pertaining to different organizations yet being interrelated that create a network.

Through joint efforts, they produce and transmit knowledge, contributing to the advancement of diverse disciplines (David and Foray, 2003). This becomes especially important in the 21st century, when Information and Communication Technologies (ICTs) simplify and enable faster, more accurate and greater opportunities of availability of information. Hence, ICTs become a tool that contributes to socio-economic development, as it provides a tool for information diffusion and knowledge-acquisition, thus enabling learning as well as transmission of data.

Knowledge-triangle and its agents

Knowledge-creation relies on three main elements, as seen on the following Figure:

- Knowledge-generation (KG): Commonly referred to as Research & Development, it consists of studying existing theories and technical knowledge through implementation of creativity, finding new elements and contributing to each of those theories/practice areas.
- Knowledge-transfer (KT): The continuous KG provides more information and data, which needs to be shared with others, and in this way the knowledge becomes part of a characteristic of society. This can be achieved through education and learning processes, whether formal (K-12, higher education, etc.) or informal.
- Knowledge-implementation (KI): Thanks to KG, new concepts and theories can be incorporated to existing ones, improving human lifestyle, production, service offerings, etc. Through KT, it is possible to transmit the knowledge to society, enabling individuals to implement it in their day-to-day lives, including work environment.

Based on the three elements abovementioned, the agents of a social environment contribute to the constant integration and advancement of knowledge, to improve their social welfare and economic growth, with the ultimate objective to live better lives. KG is fostered by the needs of the market to improve and challenge status quo, and is carried out mainly by private and state-owned research and education institutions (mainly Universities). They themselves then carry out KT processes, and knowledge becomes part of the elements a society has to create products and services for their lives.

Lastly, companies, whether large Multinationals or Small and Medium Enterprises (SMEs) are the agents that carry out KI and incorporate the KG to the existing knowledge. In addition, they need their employees to possess the elements that result from KG, which is why KT is highly relevant, to ensure prospective employees have the necessary tools to carry out their jobs. Because of this, it is of high relevance the relationship existing between the entrepreneurial sector and research/education institutions, to know how the KG processes translate into KI and the creation of innovations.

Spain's case

The present study centers the analysis on those enterprises operating in Spain with the highest Corporate Reputation, including national and foreign companies, focusing on the differences evidenced in how each of them is viewed in the Spanish social context. It is identified that integrity and innovation are the two elements that are the most important for the Spanish society regarding their evaluation of a firm (Mattera, 2014). In spite of this, these two factors are the ones in which Spanish companies have worse results compared to foreign companies.

Innovation results in the EU

In the European context, there is great support within the region to develop all the State members, and to build a solid group that has the capacity to generate value added in diverse areas, based on the experience and know-how of each country (World Economic Forum, 2014).

In the case of Spain, the creation of knowledge, as well as the links between the diverse agents that participate in this process, has achieved results, which are low compared to other nations in the European Union. However, the country had experienced high economic growth during the last decade of the 20th century and the first years of the 21st century. This difference implies that Spain had not consolidated the elements needed to generate the basis for competitiveness in a knowledge-based economy.

The European Union (EU) has created a scorecard through which every country's actions towards building the knowledge triangle and a sustainable basis for innovation are evaluated. Overall, three main areas are assessed: KG and KT (measured among other variables by number of scientific publications, number of new PhDs, number of individuals who complete tertiary education), KI (measured among other variables by number of new community trademarks, number of patents filed internationally through PCT, number of SMEs that produced innovative activities) and support for R&D activities (measured for instance through the percentage of the country's GDP that the government devotes to research, development and innovation activities).

Based on each country's results, they can be classified according to two categories: leaders and followers (Howell and Higgins, 1990) yet the EU created a deeper distinction to allocate all its State members (see Figure 1):

- **Innovation leaders:** those countries whose results (in terms of the variables evaluated in the Innovation Scoreboard) are highly superior to the EU's average and are considered to drive innovation in Europe.
- **Innovation followers:** those nations whose innovation results are around the EU's average.
- **Moderate Innovators:** those countries that present results below the EU's average.
- **Modest Innovators:** nations that do not have high intensity in innovation, thus having results that are significantly lower than the EU's average.

Figure 1. European Union's Innovation Map

Source: European Commission (2015)

Spain's innovation results and knowledge triangle

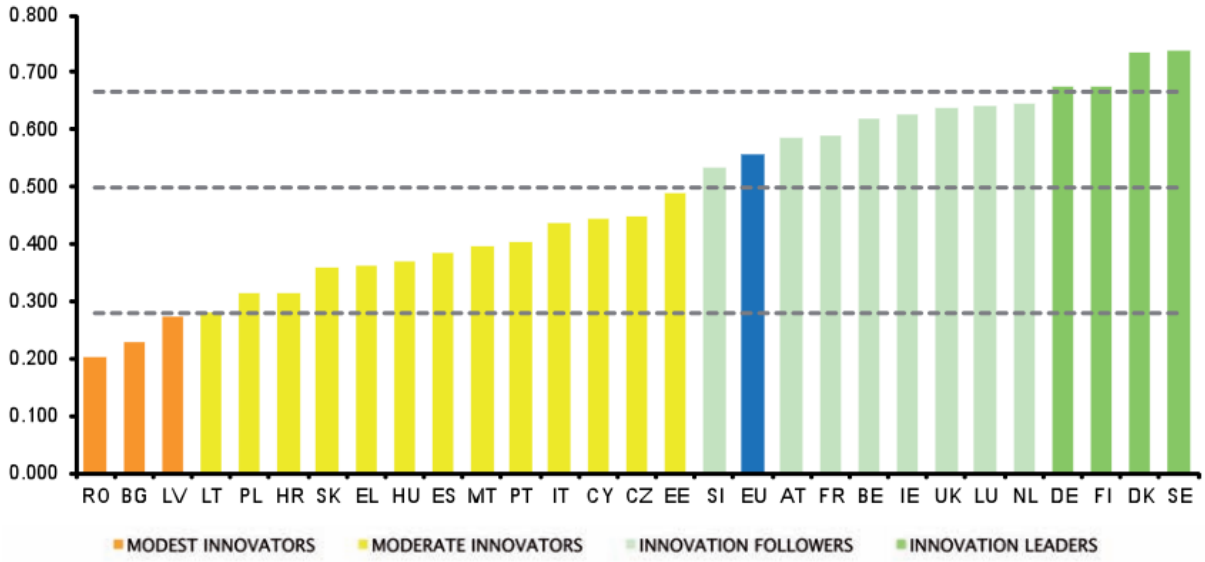
Spain is located among the third group in spite of being a knowledge-based economy, and having as main industries service-related or highly knowledge-intensive economic sectors. The country has a strong KG as it has high International scientific co-publications and publications in general; it registers new Community Trademarks and creates innovations in societal challenges.

However, the revenues from new patents are low compared to the EU average, as well as the revenues from licensing creations of innovations on an international level. In addition, the country has low knowledge-intensive services exports, which should be a strong parameter considering the country's economy is based mainly in service and knowledge-intensive industries.

By assessing the specific case of Spain, it is evidenced that they carry out many activities regarding R&D in terms of KG however there is not a strong link with companies, whether

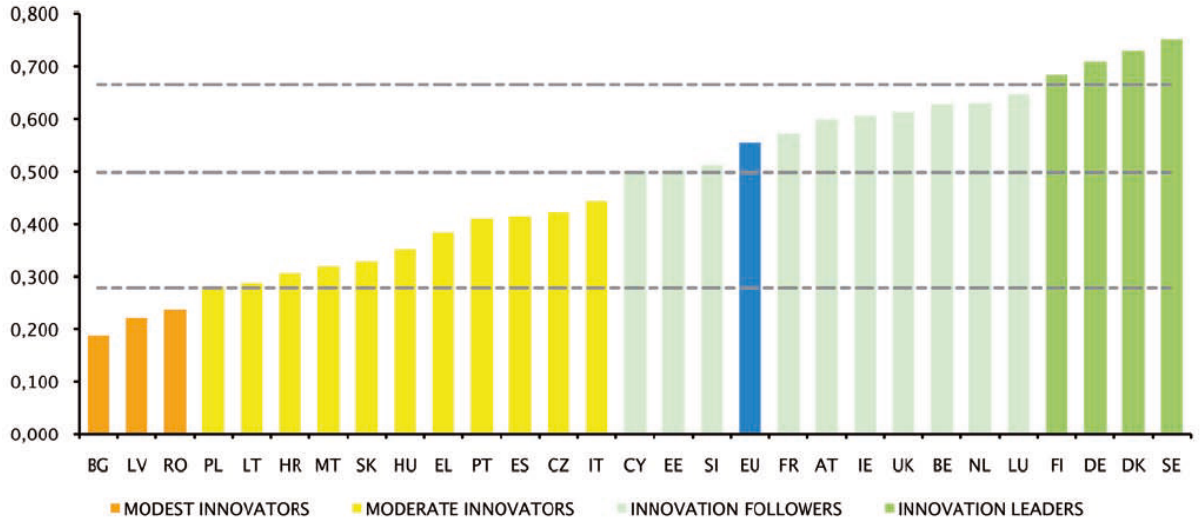
large multinationals or SMEs. Comparing the country's innovation results in 2014 and 2015, it is evidenced that it has dropped from the 17th position to the 19th (see Figures 2 and 3).

Figure 2. EU Member State's Innovation Performance 2015



Source: Hollanders, H., Es-Sadki, N. and García Porras, B. (2015, p.5)

Figure 3. EU Member State's Innovation Performance 2014



Source: Hollanders, H., Es-Sadki, N. and García Porras, B. (2014, p.5)

In the past two years, many countries from the EU have shifted between the scale in terms of their Innovation results. In some cases, they achieved better positions, through a strong focus on R&D and improving institutional support to the local companies operating on a national and international level. In other cases, it was due to a lack of this support (both from state-owned institutions and private ones) that nations achieved lower results.

The greatest struggle is financial support, in order to create new links between institutions carrying out KG and KT activities and those being in line with the needs of firms, who will transform such knowledge into products and services tailored for society. In the case of Spain, finance and support was lower in 2015 than in 2014, which limit the capacity for KG activities, and as a consequence, also KT and especially KI.

Figure 4. Finance and Support

Source: Hollanders, H., Es-Sadki, N. and García Porras, B. (2015, p.23)

The result of a lower number of resources devoted to improving the knowledge-triangle, considering the starting position of the country was a moderate innovator, affects:

1- Each company on an individual level, as they have fewer elements as foundations to create innovations and a sustainable competitive advantage.
2- If local firms do not perform as well as their competitors, they will have a lower capacity to attract talent and to generate wealth.
3- When enterprises in a country are not capable to generate employment and economic development, talented individuals may choose to go to another region, where their talent will be valued and rewarded.
4- Each nation that has a high capacity in KG and KT yet not enough KI is not being efficient in the use of its resources, as its individuals will have high knowledge but it will not be put into practice by the market in that sector. Hence other markets will profit from the KG and KT efforts conducted in this country, without the investment, time and resources devoted to it.

5- If a country does not generate enough wealth, it will become more difficult to devote resources for R&D (KG), KT and KI in the future. Every year it will be a greater challenge to support such activities if during the previous year there have not been good enough results.
6- Financial support does not only come from state-owned institutions, it should also be a proactive strategic decision from each company. By supporting R&D activities, it is evidenced that they increase their capacity to create products/services tailored to society's needs and in doing so, building a strong competitive advantage.
7- With a lower capacity for talent, as well as lower wealth generation, it becomes more difficult to devote new resources to all three elements of the knowledge-triangle (KG, KT, KI). By having less investment in those, the possibility of improving firms' innovation capacity as well as the competitiveness of the country diminish.

Conclusion

Based on the abovementioned, it is concluded that there is a need to improve a country's knowledge triangle, the integration between the R&D sectors and the firms (whether private or state-owned) in order to maximize and exploit innovation opportunities. If this is achieved, a virtuous cycle is generated between all the agents, enabling a higher generation of knowledge, leading to an increased innovation capacity and as a result, improving the competitiveness of the country.

In addition, an improvement in the relationship between an enterprise and its stakeholders results in an enhancement of the integrity that society perceives of this firm, as well as the knowledge that the company holds internally to generate innovations. Through greater engagement with the different agents of society, a company can benefit from their knowledge and incorporate it to create products/services better tailored for society.

Furthermore, there should be an institutional support, which implies better coordination and organization from state-owned entities to ensure a national framework that fosters innovation. As it has been previously detailed, both elements have a direct influence in determining competitive advantages attributable to a knowledge-based economy.

In the case of Spain, because of the lack of links between each of the agents involved in the knowledge triangle, the results show a low performing nation that continues to fall back in the comparison with other EU countries. The country should have higher results in terms of innovation and transparency, to connect with social matters and create a competitive advantage tailored to society's expectations. Because of this, the country is currently in a vicious cycle, where a lack of resources leads to lower KI and this in turn provides less wealth generation, leading to once again low resources for future investment and not supporting KI activities.

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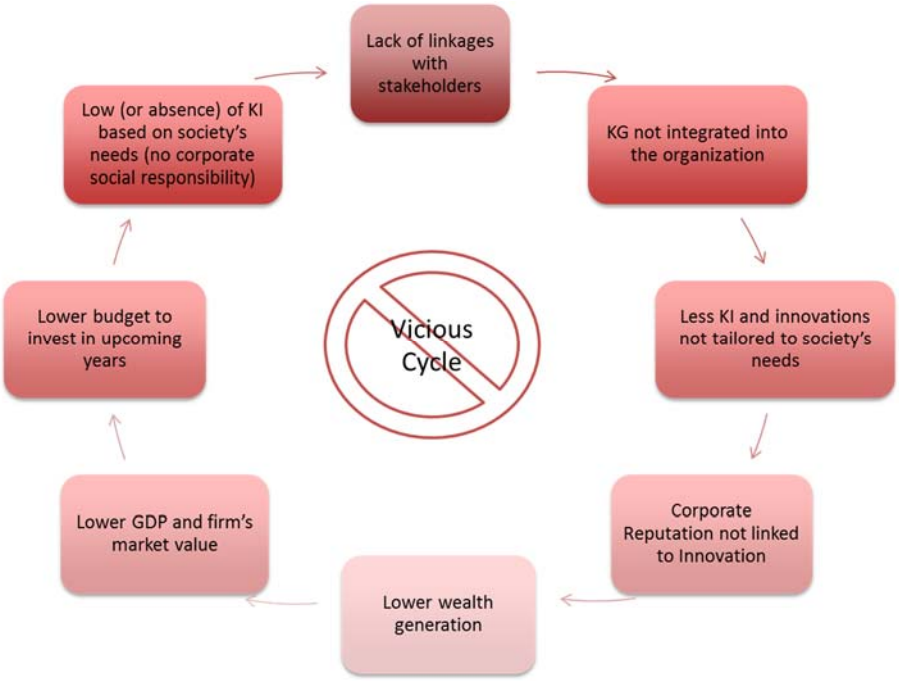
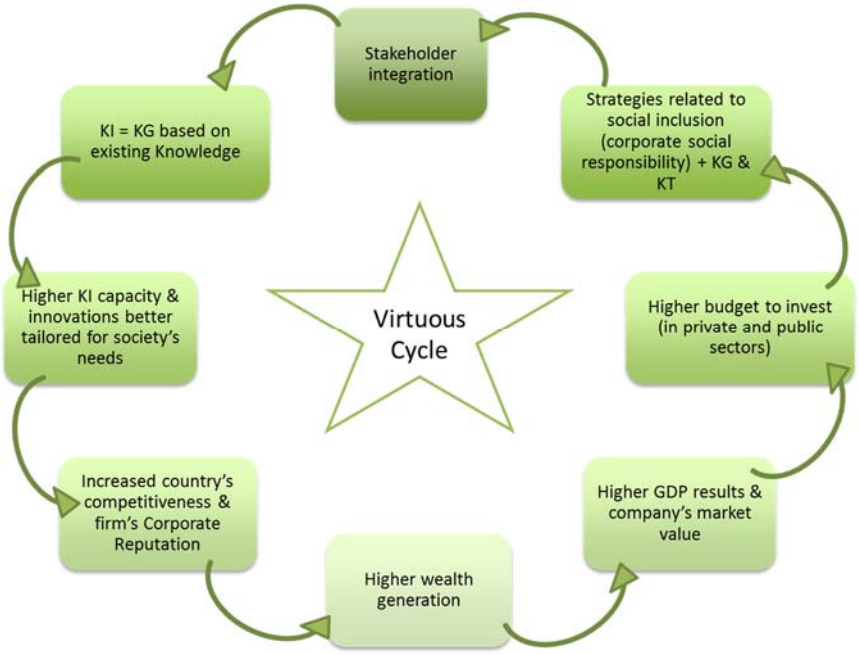
Figure 5: Vicious Cycle



Source: own elaboration

If the interrelation between all the social agents were to be improved, greater KG and KT would be achieved, hence increased KI. In doing so, a virtuous cycle would be generated, where each year greater wealth would be created based on a high competitiveness and innovation capacity.

Figure 6: Virtuous Cycle



Source: own elaboration

Creating a virtuous cycle within a national economy depends on the two factors previously exposed, innovation and integrity, through firm's improvement in their stakeholder management. By carrying out social actions, companies improve the community, which will eventually have a positive effect on themselves, creating a win-win situation for all the social agents and promoting the socio-economic development within the country.

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