



## Corporate Social Responsibility (CSR) Driven Innovation & Opportunities for Sustainable International Business

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### ABSTRACT

In this world, there is no alternative to sustainable development and ready-made garments industry, and Bangladesh is no exception to that. Corporate social responsibility practices (CSR) in developing countries are not very popular yet, and this is true for Bangladesh as well. This paper will demonstrate how corporate social responsibility activities can be pursued as a core business strategy (CSR-Driven) in companies, especially in the ready-made garments (RMG) sector in Bangladesh. RMG is contributing more than 75% of total export earnings for Bangladesh, but the sector is undergoing very critical moments for a number of incidents including Rana Plaza and Tazreen Fashions lately. This is the prime time to shift the focus of the industry to redefine the business model of the ready-made garments companies to retain the customers and attract new business opportunities internationally including CSR-driven innovation strategy in the company's core business strategy. Case study method has been applied to carry out the research to show that CSR-driven innovative strategy will not only help to find the new solutions to business to respond compliance requirements of international buyers but also find innovative strategies for the companies to create win-win situation including all the stakeholders. To outline and justify the importance of CSR-driven strategies and explain the benefits of it, Echotex Limited and New Look Fashion's innovative strategy will be introduced and examined that changed their history of business capturing new markets globally.

**Keywords:** CSR, CSR-Driven Innovation, Sustainability, and Business Model.

**JEL Codes:** D47, M31, O13.

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### 1. Introduction

CSR is a relatively new concept and practices in Bangladesh and the ready-made garments (RMG) industry is in its premature stage of this practice. The industry is still fighting to enforce the establishment of effluent treatment plant (ETP), good labor practice, good working environment, modern firefighting systems, etc. International buyers are putting pressures on maintaining compliance and other regulatory issues with good business practices to place their orders, especially after the tragic incidents of Rana

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Plaza and Tazreen Fashion. This has resulted in the disappearance of a large number of garments factory from the market.

These companies failed to survive due to the non-compliance of the buyers' requirements. While some companies are disappearing from the market, some good companies being innovative and committed to the triple bottom line of business, have successfully maintained the good relationship with their buyer and captured new markets adding more value by their innovative strategic CSR activities. In this 21st century, competitive edge of global business has forced the companies to realize and implement the importance of economic, ethical, altruistic and strategic obligations as the important part of corporate social responsibility (Levitt 1958; Carrol 1979; Lantons 2001). Though there is a great debate for stakeholder theory that contradicts against value maximization theory of business (Friedman, 1970; Jensen, 2002; Sundaram and Inkpen, 2004; Karani, 2001), CSR has gained growing importance including social and environmental responsibilities by the companies (Bowen, 1953). Successful convergence of economic, ethical, altruistic and strategic obligations plays the key role for the companies' existence in the respective markets and industries and rewriting the business model integrating triple bottom line concretely (Idowu, Louche, & Filho, 2017). The authors also argued that taking innovation initiative as part of the company's strategic CSR direction is a great way of value added that will not only help the improved performance in the triple bottom line (people, plant and planet) but also the other stakeholders as well. Empirical studies on CSR normally analyze at the company level or the link between companies with its stakeholders (Garriga and mele, 2004; Kakabadse et al., 2005; Carrol, 1999; Waddock, 2004). But corporate social responsibility-driven innovation takes into account of social, environmental, or sustainability to create a new way of working, new products and services, processes to capture new markets internationally (Little, 2006). This paper will outline the importance of integrating innovation initiatives as part of companies CSR, the benefits of embracing CSR-driven innovation strategy in business model and opportunities for ready-made garments companies' to capture international business. Potential challenges will also be addressed simultaneously with the tools and techniques of exploiting the challenges into opportunities.

## 2. Literature Review

CSR and innovation have emerged over the past decade and evolving as a core business strategy. Firms are systematically integrating CSR as part of their value proposition and integrating into their innovation process (School, et al., 2008). School, et. at., (2008) argued that product related CSR-driven innovation outweigh the improvements in the CSR process. Corporate social innovation (CSI), the base of the pyramid (BOP), eco-innovation, and social entrepreneurship are the main fields of CSR in the CSR literature.

Firms should explore social issues in their learning process to identify the unfulfilled needs of people, develop solutions to create new markets and address the passionate social concern (Rosabeth Moss Kanter 1999:25, & School, et al., 2008). We know the example of BankBoston's Community Bank Group setting, which was a project that ultimately turned into a new market for the bank. We also can address the success story of Bell Atlantic's success story of enriching schools with HDSL computers that helped them to learn how to use and market their new technology. Corporate social innovation has been described as "finding new products and services that meet not only the functional needs of consumers for tasty food or clean clothes but also their wider aspirations as citizens"-explained by Partick Cescau, the CEO of Unilever (as cited in Webb, 2007). A good way to use corporate social innovation's strategy is to use the social issue as a source of new opportunities, addressing social needs besides the influence of consumer and user (School, et al., 2008).

But, most of the firms consider CSR as a tool to reduce operational costs and risks (Hockerts, 2008, & (School, et al., 2008). In our study, we will focus on CSR as a means innovate new tools and techniques to address the social needs integrating CSR-driven strategy as a core business strategy for the companies. To do this, CSR-driven innovation requires the building knowledge structures that will result from the investments in corporate social performance.

The base of the pyramid (BOP), as discussed by Prahalad & Hart (1999) focuses on low-income markets. Focuses on the unmet needs of the low-income segment of the society can be a profitable market while addressing urgent needs of poor people (Christensen, Craig, & Hart, 2001; Prahalad &

Hammond, 2002; Prahlad & Hart, 2002). As many poor have to spend more of their daily needs and some others products than the middle or upper-class counterparts, by using BOP-thinking, large companies can contribute by targeting better-designed products and improved distribution that will help to reduce the poverty premium (School, et al., 2008).

Eco-innovation another CSR-driven innovation focuses on exploiting the opportunities for innovative products addressing key environmental issues (Hockerts, 1999, 2003, & School, et al., 2008). Eco-innovation has been defined in numerous ways. It is also termed as eco-design, sustainability innovations, eco-partnership, or clean technology venture, which is considered as “breaking through discipline for innovation” (Fussler, 1996), next industrial revolution (Braungart & McDonough, 1998:82, Lovins, Lovins & Hawken, 1999:1, Senge & Carstedt, 2001: 24), and a source of creative destruction (Hart & Milstein, 1999: 23). The most important potential for eco-innovation is the creation of new markets through environmental innovation (Fussler, 1996; McDonough & Braungart, 2002b, a; Randelovic, O'Rourke & Orsato, 2003; Westenhagen, 2003; Kolk & Pinkse, 2004; Cohen, Smith & Mitchel, 2008; Halme et al., 2008). Eco-innovation evidence that innovative firms are able to drive ecological innovation profitably creating future new markets not based on the current market (Fussler, 1996).

### 3. Research Methodology

In this study, we have used the case study method to investigate the relationship of CSR-driven innovation practices by the RMG companies as a core business strategy and its impact on companies business performance overall. The case study is convinced as the preferred method for in-depth analysis when the study is holistic in nature, and this method helps researchers to closely examine and analyze the data in specific circumstances using practical cases (Yin, 2003). We have taken Echotex Limited as the case study gain an in-depth understanding of the relationship of the study theme and practices.

Individual case studies can be a very powerful tool to represent a unique phenomenon (Siggelkow, 2007). Echotex Limited has been selected to illustrate the relevance, as Echotex Limited is the pioneer in the ethical apparel manufacturing industry, who have successfully addressed the “Long Hour and Low Pay” in partnership with New Look, an UK-based reputed fashion brand. They are also pioneering in launching a supplier-driven labor costing system (Miller & Hohenegger, 2016) with great emphasis on the triple bottom line of business. Semi-structured interviews and field interviews were conducted with management, workers, and managers. Sustainable manufacturing and ethical manufacturing principles were investigated in detail and verified through a number of field visits. We have also collected secondary data for the research.

### 4. What is CSR-Driven Innovation?

CSR-driven innovation is defined as an innovative process that aims to design a profitable product or service in an innovative and user-oriented way that benefits the environment and society (School, et al., 2008). Corporate social responsibility-driven innovation can also be termed as sustainability-driven innovation, as the objective of CSR-driven innovation is to achieve the sustainability for the business taking into the consideration of triple bottom line. We can see that CSR-driven innovation is getting popularity among the companies as a long-term business strategy, as it is very hard to measure the benefits of integration of CSR-driven innovation strategy in short-run. Adoption of CSR-driven innovation strategy creates new business opportunities for the companies as evident from a number of companies in the world (Little, 2006). Little (2006) also defines CSR-driven innovation as the creation of new market space, products & services or processes driven by social, environmental and sustainability issues. So, strategic CSR-driven innovation is a great source of growth and opportunity for business growth.

Environmental and social concern has gained considerable attention and literature is well-established on it. But, the role of innovation in CSR strategy by the companies has received little attention relatively (Pavelin & Porter, 2008). However, innovation should be firm's one of the primary concerns for company performance (Kim, Brodhag, & Mebratu, 2014) as innovation creates sustainable business value for companies growth and survival (Porter & Linde, 1995). As Aggeri (1999) has argued that innovation as a crucial issue in industrial policy buys the policymakers. So, innovation should be companies' primary

concern and this is the sustainable engine for companies' growth and survival as well (Kim, Brodhag, & Mebratu, 2014).

## 5. Why CSR-Driven Innovation?

If we look back, history says that 1960's competition was based on price, meaning low cost was the best. 1970's competition focused on supplying quality at low cost as competitors were able to make cheap products. Optimum price, quality, and flexibility was the slogan for the 1980's. From the 1990's and onward, innovation has become the way of differentiation as the way customers expected but none came up with before you. CSR helps to foster innovation activating driving initiatives in the company creating a new working process, innovative products and services, process and new segments of market opportunities (Buisse & Verbeke, 2003; Wagner, 2010; Iraldo, Testa, & Frey, 2009; Rennings, Ziegler, & Rehfeld, 2004). Integrating innovation strategy into CSR shows that the result is most direct and effective to the company performance, and the more the investments in environmental innovation, the more the capability of innovating new technologies for effective organizational management and improved performance. Innovative investments are needed to make future profits investing in technology and research and developments on the one hand and human, social, environmental, technical and economic investments on the other hand (Kim, Brodhag, & Mebratu, 2014).

Those who voluntarily adopt CSR-driven innovations towards environmental management enjoys benefits from regulation (Jones, 2010). Evidence supports that the cost and efficiency advantage of voluntary actions has positive influence on regulatory formalities, and though the choice of strategy is subject to a number of factors (Porter & Linde, 1995; Lyon & Maxwell, 2004; Khanna et al., 2007), the voluntary industrial management attracts policy-makers to pursue cost-efficiency through innovative solutions in contrast to traditional method of doing business (Khanna & Brouhle, 2009).

## 6. Opportunities for International Business

In business, the bottom of the pyramid is the interesting segment. Till date, a large percentage of the world population is living on less than a couple of dollars in a day. That entails the lack of purchasing power and the need for economic development. This is a great opportunity to create shared value addressing the above elements in the total value chain from production, distribution, and sales. At present, CSR is getting popularity as the firm's strategies that helping to satisfied stakeholders and creating a positive image in the market (Kim, Brodhag, & Mebratu, 2014). The success clearly depends on integration CSR-driven innovation in both strategy and operations in developing new business opportunities.

As high CSR potential signals the potential for positive influence through CSR-related actions and it more applicable in the context of a country where many of the requirements of international CSR standards are not achieved (An attempt to determine), in the RMG sector of Bangladesh, there will be a competition among the competitors with the aim of retaining their existing buyers and expanding to new markets internationally.

## 7. Potential Challenges for Bangladeshi Companies?

History says that any breakthrough has encountered barriers by the people, as people usually do not welcome any change initially. As CSR-driven innovation delivers unprecedented solutions, that require adjustments based on the situations (School, et al., 2008).

An innovative way of doing business through the continuous development of new products and services by the competitors excelling the knowledge will be the big threat for BD companies. Only cheap labor (School, et al., 2008) will not help to cut the benefits of the business or sustaining without innovating products or services.

In Bangladesh, CSR potential in the RMG sector is going to be high, as it is correlated with the risk of violating CSR standards (Laudal, 2010). Environmental agencies of the country is going to strictly monitor the environmental and other issues in the industry.

## 8. Benefits of CSR-Driven Innovation?

Innovations implemented by companies add value for customers by enhanced functionality, reduced price, improved quality, ease of operations. All are paid back to companies in reduced costs of operations, which helps to instigate the strategic decision making for companies. Past study also indicates that investing in environmentally friendly technologies appeared to be economically sound. So, the works from managing risks to meeting customer demand (Little, 2006). The essence of sustainable innovative products and services helps to solve the problem of being a responsible seller and responsible buyer. As in Bangladesh, the state of the art in ready-made garments industry is in the infant stage, being innovative will also benefit from regulatory bodies. Sometimes, revolutionary innovations pose a dilemma for the companies to practice as part of their business strategy. For example, there are rumors in that Philips and Osram hide a bulb which lasts lifetime rather than 1000 hours of average bulbs life expectancy, but if the introduction of this products will certainly harm the business objectives of this companies. Hence, it is suggested that this innovation should make open in the market and find a new business model for their products that will have a tremendous effect on society.

## 9. Why CSR-Driven Innovation will be in Bangladesh?

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## 10. Case study on Ehotex Limited – a pioneer in CSR-Driven Innovation Strategy in Bangladesh

Ehotex Limited is a sister concern of Echo Sourcing which is a UK-Bangladesh joint venture RMG company based in Bangladesh. From its first step, the company was committed to the planet, people and product and kept at the heart of the state-of-the-art manufacturing facility of the company (Basak, 2017). Ehotex limited established its Effluent Treatment Plant (ETP) in its operation from the very beginning of its operation, and won the National Environment Award in the following year showed the commitment to the environment.

When the majority of the RMG companies in Bangladesh has the complaint about the low price offered for their products by the buyers, Ehotex was successful in settling the issue and exercising considerable bargaining power on buyers for their product (Smith, 2014).

Ehotex Limited and New Look – a prominent fashion company based in UK jointly came up with a great idea to tackle “Long Hours and Low Pay in Bangladesh”, in an unconventional way. In Bangladesh, CSR concept is not well-known to all yet, and typically means sort of donation. These two company integrated CSR in a way to find a new business strategy to do business internationally in a sustainable manner. In their “Long Hours and Low Pay in Bangladesh” program, they went for 50/50 cost sharing and introducing a number of benefits for the workers at Ehotex including; free lunch aimed at improved nutrition, bonus linked to productivity, provident fund (Elizabeth, 2014). According to Elizabeth (2014), this joint program helped both Ehotex and New Look in a number of ways; First, 45% reduction in overtime working in six months of introduction of the project at Ehotex Limited; Second, 25% increase in intake home package for workers (Miller & Hohenegger, 2016); Third, motivated workforce did not join any union and no labor unrest in the company; Fourth, improved nutrition lowered absenteeism, and improved quality and productivity; Fifth, guaranteed volume of contract from New Look to Ehotex giving confidence for further improvements and improved forecasting for future plan; Sixth, responsible sourcing led to improved brand image for the companies and improved business expansion and growth (About, n.d).

Ehotex Limited gained a sustainable improved business growth after the introduction of their joint program with New Look. The following table showing Ehotex Limited’s business growth over the years.

Years	Company Growth Rate
2016-2017	14.60%
2015-2016	10.08%
2014-2015	6.06%
2013-2014	4.85%
2012-2013	6.90%

Source: Basak, 2017

## 11. Conclusion

From the study, it is evident that CSR is beyond typical donation. Rather it has become more of strategic things and companies need to integrate into their core business strategy to come up with innovative ways of doing business. Strategies developed by Echotex Limited and New Look, not only helped them to solve emerging issues in their companies, but also to capture more business. Importantly, where most of the RMG companies in Bangladesh are always complaining about the low price and struggling to find their way out, these companies joint CSR-driven strategy helping them to be more sustainable in business without being cheap (Smith, 2014).

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