

## Chapter 6

# Social Innovation, Environmental Innovation, and Their Effect on Competitive Advantage and Firm Performance

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### **ABSTRACT**

*The proposal below provides a special emphasis on the relationship between businesses and natural environment. It is argued that the inclusion of environmental criteria to business activities promotes the creation of new core competencies, offering a creative and innovative perspective to the organization that can lead to the achievement of sustainable competitive advantages. More specifically, we analyze both the existence of a direct relationship between Environmental Innovation and Firm Performance and the existence of an indirect relationship between the two, which highlights the mediating role of the kind of competitive advantage generated. It also provides an innovative approach, as it explains the Environmental Innovation from the literature on Social Innovation, considering Environmental Innovation as an expression of Social Innovation through the incorporation of ethical arguments to products, processes and organizational modes of the company. The main contributions of this work can be summarized as follows: (1) It explains the nature of Environmental Innovation through the Social Innovation literature, which allows consideration of some key aspects of administrative and technological innovations that have not been taken into account the academic literature. (2) The different types*

DOI: 10.4018/978-1-61350-165-8.ch006

*of environmental innovations are analyzed as a necessary step to understand the strategic options in the environmental field. (3) Environmental Innovation is related to business performance. The practical implications of the relationship between environmental innovation and performance are of great importance, since it directly influence the type of environmental strategy chosen, allowing the company to choose from innovative strategies (based on pollution prevention) or more conservative strategies (emissions control).*

## **INTRODUCTION**

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. The connection between Social Innovation and changing environments is confirmed by the words of the Nobel Prize Simon Kuznets (Pol & Ville, 2009). According to Kuznets, without the existence of firms and banks (both defined as social innovations), the industrial revolution had not taken place, and also would have been much more difficult the development of railways if they had not also developed securities markets.

Nowadays, our society is experiencing a time of change, the paradigm shift towards Sustainable Development, defined by the Brundtland Commission (World Commission on Economic 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 (Sharma & Vredenburg, 1998). Although industrial development of the last two hundred years has brought prosperity and wealth, it has unintentionally caused environmental degradation as well (Shrivastava, 1995). Industrial activity has grown to such an extent that has already produced irreversible effects on our global environment, including impacts on climate, biodiversity and ecosystems.

For these reasons, companies must be able to reduce their emissions and their levels of consumption of materials, developing new clean

technologies that are more efficient than current and inclusive business models that facilitate the creation and distribution of wealth more evenly.

According to these arguments, in this chapter we will analyze the role of the Environmental Innovation (understood as an expression of Social Innovation) in achieving business results. Taking Social Innovation as starting point, throughout the chapter the nature, determinants and types of environmental innovations will be shown in order to show a complete picture of the topic. More specifically, both the existence of a direct relationship between Environmental Innovation and Firm Performance and the existence of an indirect relationship between the two will be analyzed, highlighting the mediating role of the kind of competitive advantage generated.

A broad concept of Social Innovation is used, which allows consideration of some key aspects of administrative and technological innovations that have not been taken into account the academic literature. Furthermore, the practical implications of the relationship between Environmental Innovation and performance are of great importance, since it directly influences the type of environmental strategy chosen, allowing the company to choose from innovative strategies (based on the creation of new core competencies via pollution prevention) or more conservative strategies (emissions control).

The remainder of the chapter will be structured as follows: The first section discusses the concept of Social Innovation. A review of the major contributions made by the literature regarding the term is carried out. Additionally, a definition in line with the concept of Environmental Innova-

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