

The relevance of Innovation for Ethics, Responsibility and Sustainability

M. Isabella Leone*, Paola Belingheri*

**Department of Business and Management, LUISS Guido Carli University, Rome, Italy*

Introduction

In the fall of 2015 a call for papers was issued on “The relevance of Innovation for Ethics, Responsibility and Sustainability”, as a follow up of the rich and interesting debates, which took place at LUISS during the 2015 DRUID Summer Conference on this topic. A few conference participants were invited to submit their papers for publication in this special issue, but also external contributors were invited through the open call. This special issue thus presents the most interesting contributions on innovation seen from a social perspective, together with key outcomes from the conference itself.

Traditional innovation theory suggests that economic growth and technological change are strongly interlinked, where on the one hand economic progress elicits new technological trajectories, and on the other hand new technological breakthroughs contribute to the creation of new markets and wealth (Dosi, 1982). However, more recent studies have identified how innovation and the commercialization of related products often translate into inequalities as economic growth does not homogeneously spread across portions of the population, and we are seeing increasing inequalities both across and within nations, between different social categories (George, McGahan and Prabhu, 2012). These inequalities bring with them a social cost, driving differences in health and mortality, as well as in education and crime (Neckerman and Torche, 2007) thus reducing or eliminating the possibility for entire portions of the population to contribute with their skills and creativity to the creation of wealth (George et al., 2012). In order to reverse these inequalities and produce a more balanced society, a new movement is gaining increasing momentum, with the objective of integrating the principles of Ethics, Responsibility and Sustainability (ERS) in the discourse on firm’s competitiveness, economic growth and technological progress, with specific attention to the social impact of firm-level economic choices.

Against this background, an increasing number of scholars from different fields has emphasized the need for the intersection between two streams of literature whose importance is increasingly recognized by managers, policy makers and scholars: innovation studies, and business studies on Ethics, Responsibility and Sustainability (ERS). The first stream is rooted in Schumpeter’s work (1911, 1942) but its relevance as an autonomous field of research has increased in the last decades of the twentieth century (consider for example Dosi, 1982; Freeman and Perez, 1988) and it has now reached center stage among the most influential academic domains given the crucial role of innovation in firm’s competitiveness. The second, born mainly during the debate on the causes of the recent crisis and on the role that business

schools, as educational institutions forging leaders and managers, had in such events, is still in search of a specific definition as a research topic. Nowadays it can be conceived mainly as an umbrella domain, which gathers together studies on Corporate Social Responsibility (Aguinis and Glavas, 2012) with its new attention to multilevel analysis; Shared Value (Porter and Kramer, 2011) with its focus on networks of stakeholders; Social Entrepreneurship (Dacin et al., 2011) with its special look at individuals and collective actions to produce change; Inclusive Innovation (George et al., 2012) and Base of the Pyramid markets (Kistruck et al., 2013; Ansari, 2012) centered around the disenfranchised; and Social Innovation (Harrison et al., 2011; Gallouj et al., forthcoming), investigating how heterogeneous groups of agents can be mobilized to generate solutions to social problems.

Aims and Structure of the Special Issue

The aim of this Special Issue is thus to contribute to the recent debate revolving around the intersection between the two aforementioned streams of literature focused on Innovation and ERS studies. In doing so, we are inspired by a twofold motivation. On the one hand, in line with recent trends, we believe that it's necessary to place topics center stage of the innovation studies debate, whose relevance for the well-being of society as well as for the sustainability of its development in the long run are becoming evident. Innovation is almost by definition a field of research porous to the new challenges coming from the complex system of elements that drive the changing landscape of our economies. Thus, it is important that these themes are brought to the attention of innovation studies scholars as interesting and fruitful objects and objectives for research. On the other hand, we also think the work under the ERS umbrella can greatly benefit from the adoption of an innovation perspective, following the example of the social innovation sub-field. The implementation of the knowledge and conceptual as well methodological tools typical of innovation studies can be fundamental to increase the rigor of the analysis and the soundness of the findings, as well as the generalizability of the results. Furthermore, we believe that the adoption of the innovation lens to the study of the ERS-related topics could be a catalyst for the development of new theory, which would allow for a much deeper understanding and a full-fledged investigation of the phenomena under scrutiny.

In order to offer our contribution, we structure this editorial as follows. We first introduce the paper on the DRUID debates, referring to the Annual Summer Conference, held at LUISS University in June 2015. The paper provides a common incipit for the remaining papers, as it “connect[s] the dots’ between a series of speeches, sessions, discussions and debates that were hosted at the conference, with the aim of drawing the common thread between them” (Mongelli and Rullani, this issue). We use this piece of work to introduce the four main themes of the special issue, which are developed by the authors of the remaining five papers. We explicitly refer to (1) innovation and inequality; (2) social enterprises as hybrid organizations; (3) business model innovation and sustainability; (4) environmental preservation. After having summarized the main contributions of each paper along the themes’ focal dimensions, we conclude by putting forward some research questions which can be hopefully investigated through both ERS and Innovation lenses in the near future.

The Red Thread of the DRUID Summer Conference 2015: unveiling the themes of the Special Issue

The paper by Mongelli and Rullani (2017) summarizes the key outcomes of the discussions held at the Druid Summer Conference 2015 on “The Relevance of Innovation”, specifically for Ethics, Responsibility and Sustainability. It offers an excursion through the keynote speeches as well as main papers of some parallel sessions and puts forward the main themes of the conference coherent with the aforementioned path towards the inclusion of social issues in the innovation studies domain. The four themes are briefly introduced and provide the general background within which we can place the special issue papers.

(1) Innovation and inequality

The first theme is innovation and its role both in the rise and the potential mitigation of inequalities in the world. Due to globalization and the spread of digital technologies, coupled with decreasing transport costs, the current competitive landscape is evolving towards a winner-takes-all scenario, where only the best products manage to compete in the marketplace. Therefore, the innovators behind these endeavors belong to a select group of “superstars”, with very high incomes with respect to the remainder of the population, further exacerbating inequalities both within the firm and in the social landscape. A possible solution to contrast this phenomenon may be empowering the citizens or workers currently in the lower income and more marginal categories, providing them with the tools and channels to increase their creative output, thereby reducing inequalities from an economic, social and spatial perspective. This means unleashing creativity not only for the traditionally more creative jobs, but for all individuals and all roles in society.

(2) Social enterprises as hybrid organizations

Following on from above, the second theme focuses on social enterprises as hybrid organizations and their potential to overcome inequalities by embracing multiple objectives. Breaking down the barriers between the traditionally creative classes and the most marginalized classes is indeed one of the key outcomes of the new wave of social enterprises that are currently being founded. These companies no longer focus uniquely on profit maximization, adopting a more holistic set of goals that encompass economic, social and environmental well-being. By combining market opportunities with social challenges, these firms sustain a hybrid model, often supported by entire communities, involving complex business models that strive to empower their target groups and create virtuous circles between economic and social returns. These enterprises are part of a broader social movement, which is encouraging a deep reflection on the traditional capitalistic model, which is evolving as a response to this new perspective. As new metrics and narratives are developed around impact together with economic sustainability, rather than profit alone, more scholarly research is needed on these phenomena to support successful practice.

(3) Business model innovation and sustainability

The third key theme emerging from the conference discussions involves business model innovation in the context of social organizations. Business model innovation (BMI) occurs through organizational learning, where firms must use ambidextrous capabilities and become

able to manage complex cognitive puzzles. Especially under a paradigmatic change, such as the one underlying the adoption of a more social outlook towards firms' activities, issues may arise for boundedly rational individuals that suffer from myopia and path-dependency, especially when past models have been successful. Managerial attention is therefore paramount in supporting business model innovation. However it must also be accompanied by the examination of how the external ecosystem may react to these changes, especially if they tackle more than one dimension of the model. Indeed, the dimensions of business model innovation can include the objectives, such as sustainability or social impact, or the target market and thus the classes that need to be empowered. Further research on business model innovation is therefore needed in order to identify which practices can be effective in social innovation settings.

(4) Environmental preservation

The last main theme of the special issue is centered on the social movement that tackles environmental sustainability. With more than 8 trillion U.S. dollars invested in R&D, an entire class of environmental technologies is arising, with the objective of protecting and preserving our natural environment. Both incumbent and entrepreneurial companies are entering a market in rapid expansion, which offers both economic opportunities and the potential to develop innovative technologies while at the same time satisfying customer needs and improving overall quality of life. In particular, through the development of new and environmentally efficient technologies and their appropriation, incumbents can reap advantages of more efficient and therefore less costly value chains, while responding to new customer preferences thereby improving the status of their products, while also potentially tapping into new profitable markets. This helps to align the environmental objectives with business targets, supporting the shift of traditional companies towards more environmentally-friendly models. This is a very interesting "field of dreams" where hybrid enterprises are competing with different strategies and business models and that can provide best practices for social enterprises and social innovation at large.

Theme (1): Innovation and inequality

On the topic of inequalities, Cirillo, Sostero and Tamagni (2017), in the paper entitled "Innovation and within-firm wage inequalities: empirical evidence from major European countries", discuss within-firm wage inequalities, which can occur between higher and lower skilled workers and also at different levels of the organizational structure. Going beyond the traditional focus on technology as a generator of disruption in labor dynamics, an approach that considers wage inequalities as the direct consequence of a particular type of innovation, or that examines between-firm wage differences as a result of innovation premiums, this article focuses on within-firm salary inequalities and firm innovativeness. Through data on employers and employees in Europe the authors examine whether firm innovativeness and its combined interaction with firm size drive wage inequalities.

Different frameworks explain wage inequalities across firms and geographic regions. Under perfect labor market assumptions, technology can imply shifts in marginal productivity of more highly-skilled jobs or can privilege non-routine and highly-cognitive functions, thus accordingly wage premiums and increasing inequality. However, theory also suggests that labor market imperfections can promote wage inequalities, due to asymmetric information between firms

and differential monitoring costs of different roles. Pressures for fair wages, stemming from employees' collective bargaining power, also led by organizations such as labor unions, mitigate and oppose these forces. These mechanisms concur to shape wage inequalities within firms, moderated by factors such as firm innovativeness and size.

The general finding is that innovation is indeed a relevant driver of wage inequalities within firms. In particular, results show that innovative firms display higher wage-gap between high and low deciles of workforce wage distribution, but at the same time show a lower wage dispersion between managers and low-layer employees. When looking at different types of firms, findings show that smaller innovative firms have significantly larger intra-firm wage gaps than medium/large organizations, independently from the inequality measure considered, confirming the crucial mediating role of firm size. In other words, in small innovative firms inequality prevails compared to their large counterparts, where the factors expected to favor larger inequalities (firm-specific wage policies and rent-sharing), albeit stronger, can be completely offset by the inequality-reducing forces (fair wages and institutions affecting wage-setting). They thus conclude that innovation and firm-specific characteristics concur to shape wage inequalities, in conjunction with labor relations management and institutional factors.

Theme (2): Social enterprises as hybrid organizations

In order to mitigate inequalities, firms must therefore focus on more than the simple economic or innovative performance of the firm, adding a more social dimension. The paper entitled "Hybridization of diverging institutional logics through common-note practices: an analogy with music and the case of social entrepreneurship" by Mongelli, Rullani and Versari (2017) deals with the organizational logics, i.e., practices, beliefs and assumptions underlying an organization's behavior. A hybrid organization, which subscribes to multiple co-existing logics, if properly managed, can be more innovative with respect to unique-logic firms, as managing multiple logics allows the firm to draw from different domains when innovating, producing value of different kinds (e.g., economic, social, environmental). Managing these organizations is a complex endeavor that requires a careful balancing and harmonization exercise. In this vein, this study borrows the concept of 'common-note modulation' from music theory, to gain insights on how hybrid organizations can successfully integrate conflicting logics.

Institutional logics are composed of symbolic carriers (e.g., a systems of beliefs) and material carriers (e.g., practices). The latter reproduce and materialize the former, and the first give a meaning to the latter. An internally consistent institutional logic has practices that are coherent with the underlying basic assumptions and values. When a firm acts according to multiple logics, it needs to manage their coherence. When conflicting logics co-exist within a firm, achieving coherence is challenging. However, if these challenges are properly tackled and co-existence can be sustained in the long run, the firm becomes a hybrid organization, satisfying both logics at the same time. The paper discusses how hybrid organizations can identify practices that can reproduce and materialize symbolic carriers, which are simultaneously present in different logics.

This can be done via processes analogous to the 'common-note' modulation technique in music theory. Modulation enables the use of different harmonies (the analog of logics) in a unique composition (analog of organization's behavior), resolving the tensions between them by means of the common notes present in both harmonies (the analog of practices that realize symbolic carriers' part of different logics), repeating them and emphasizing them in the

composition. Further, as musicians identify the best notes for modulation by examining harmonies from different points of view, examining the material carriers from the perspective of different logics can help identifying common-note practices, as they are called. In the examples discussed in the paper, these practices are identified in the specific case of social enterprises, and described as centered on marginalized individuals. The main idea is that common-note practices can be found approaching marginalized individuals from an unusual perspective, creatively designing new business models able to unlock their productive potential in previously unseen ways, thus generating models that make sense under both the social and the entrepreneurial logics.

Theme (3): Business model innovation and sustainability

As firms strive to include environmental and social sustainability concerns within their business models, these require substantial and often radical innovation, which needs to be carefully managed with a host of external stakeholders. Emerging literature on these topics presents different ways for firms to integrate these objectives, for example sustainability-oriented innovation, green, eco-innovation, inclusive-growth innovation, and social innovation. The paper by Inigo, Albareda and Ritala (2017), entitled “Business model innovation for sustainability: Exploring evolutionary and radical approaches through dynamic capabilities”, examines in particular how firms can build and draw new organizational capabilities, routines and processes to identify, design and develop business models innovation suited to particularly incorporate sustainability goals. It builds on capabilities to sense threats or opportunities, seize opportunities and reconfigure the firms’ activities, and examines them across a multiple case-study of eight Spanish firms.

Both incremental and radical BMIs can be conducive to sustainability while ensuring long-term competitive advantage. Incremental changes bring about a gradual shift to more sustainable models, as a response to the changing competitive environment and client concerns. These in turn may trigger other changes as the company deepens its relationships with external stakeholders and learns about additional sustainability opportunities. Large firms with existing business models are the best placed to profit from this type of evolution as they have the resources to experiment and gradually adjust their business models. Radical BMIs respond to sustainability challenges by executing entirely new value propositions in order to approach the market in a differentiated manner with respect to competitors, through a leapfrog approach or by serving entirely new segments. They generally appear in small or entrepreneurial firms that need to find more disruptive ways of capturing market share in order to be able to compete with incumbents. When incumbents pursue this model, they usually do so through the creation of spin-off companies.

Incremental BMIs include sensing capabilities to integrate triple bottom-line objectives and assets necessary to implement them, as well as responsiveness towards the external environment, regulations and external stakeholders that can raise sustainability concerns. To seize the opportunities, firms must then integrate and disseminate the relevant methodologies within the firm, also through partnerships with complementary organizations. The reconfiguring capabilities include infusing the entire organization with a sustainability mindset, decentralizing the capability to work towards these goals, while building trust and commitment across the firm. For radical innovation, sensing capabilities include seeking out and engaging stakeholders that provide disruptive social and environmental models, focusing on challenges

and trends at the system level and elaborating solutions that need to be matched with appropriate sustainable technologies. Seizing will be achieved through the adoption of a socio-technical system-based approach, with a strong focus on customer goals, learning from partners and co-creating using each other's complementary knowledge on the triple bottom line. Reconfiguring competences include ensuring all organizational levels are aligned and take responsibility towards the implementation of BMIs, with the creation of specific teams or spin-offs focused on sustainability and disruption, integrating this approach across the entire value chain.

It is however not only the type of objectives, such as sustainability or social impact, that pose challenges to business model innovation. A prominent role is also played by the particular context in which enterprises of this kind operate. The paper on "Business Model Innovations for Overcoming Barriers in the Base-of-the-Pyramid Market" by Gebauer, Haldimann and Saul (2017) specifically addresses this issue by examining firms serving some of the four billion people with incomes just above the poverty line. Specific business models and strategies are required in order to serve this market in a profitable fashion, due to existing barriers from customers, such as lack of access to and understanding of the benefits associated with new technologies or products as well as a strong reliance on cultural and social behavioral norms, and from the institutional standpoint such as weak governments, inadequate infrastructure or corruption. Firms react to this by striving to lower prices and educating Base of the Pyramid (BoP) customers towards the benefits and use of their products, or by collaborating with other organizations.

Business model innovation is, however, another lever that firms can apply in order to overcome the barriers for BoP activities. The business model is conceptualized as the combination of value proposition, value creation and profit equation. In BoP settings, these components should be inclusive to the customers' culture, collaborative with other actors in the market, should address economic, social and environmental complexity and will be scalable if they can address unmet needs of the BoP population. The paper therefore addresses how existing business models can be reconfigured to overcome BoP barriers and become effective in these markets, by taking a configurational approach and examining longitudinal multiple case studies in the water sector across several countries and with different initial business models.

Results show that the BoP market barriers require several changes in business model configurations, which can be classified under (1) business model design, (2) renewal, (3) expansion, (4) diversification and (5) replication. Initial business model design combines external donations with income from the market, with the view of minimizing up-front costs for customers and making the solution more affordable for the low-income segment, while providing additional social benefits for the target BoP users in a standardized fashion. This is followed by business model renewal which aims to better target individual needs of BoP customers, while providing more aspirational products and services. While still relying on external funding, the firm aims to become more self-sustaining in the BoP segment. Further business model expansion aims to overcome the image of being only for the poor, and extends sales into the middle-income segment, thus furthering the aspirational nature of the product, but keeping more basic options with lower prices for the BoP segment. Finally, business model diversification implies developing new products and services which can be complementary to the existing BoP ones, however providing an additional source of revenues that comes from outside the BoP market, thus leading to separate business models that co-

exist in synergy. Throughout these different phases, the firm must achieve coherency and alignment between the different components of the business plan. If successful, the model can be replicated in different geographical and social contexts.

Theme (4): Environmental preservation

Beyond restructuring business models, enterprises aiming to produce social or environmental impact also need to address appropriability and value capture concerns, especially if they rely on novel technologies for their competitive advantage. In particular, the environmental innovation sector, which is seeing large investments in R&D and a host of new technological breakthroughs, is an ideal setting for these considerations. The paper, entitled “How do firms capture value from environmental innovations? An empirical analysis on European SMEs”, by Corrocher and Solito (2017) focuses on the SME category and their strategic decisions regarding possible value capture from green innovation strategies in different sectors and according to differing firm characteristics. In particular, they bridge two literature streams focusing on environmental management systems and green patents, both implemented to enter the eco-innovation space, where novel products, processes and technologies offer improvements over old technologies from an environmental perspective. Through an empirical analysis of 8797 European firms, their financial variables and their innovative performance, they take into account four alternative strategies for green value capture, evaluating whether green patents and environmental management systems are substitutes or complements, and which sector-specific characteristics, including the sector’s position along the value chain and its technological content, drive the choice between the strategies.

The emerging eco-innovation market is no exception to the need for strong appropriability in order to ensure firms profit from their innovation. Among the possible appropriation mechanisms, green patents, spread out across a variety of sectors in the energy, pollution abatement and waste management, transport, building and lighting efficiency, have experienced a surge in past years. Green patents stem from a combination of knowledge in different areas, and often require systemic integration, making them a complex tool to master by SMEs. An alternative strategy is the implementation of an Energy Management System (EMAS), by defining management processes that enable to identify, measure and control any environmental impacts from the firm’s activities. These include policies, task and resource assignments, performance indicators and procedures for continuous improvement, possibly leading also to environmental certifications that provide a quality signal to customers and stakeholders. However these systems present their own challenges for SMEs, requiring a strategic approach and substantial resources allocation.

The empirical analysis shows that although the majority of SMEs implements neither strategy, for those who do, sectoral differences are strong drivers of the strategic choice. Firms that are final goods producers in the value chain tend to privilege EMAS when they are in low-tech sectors and green patents for the high-tech sectors. The reasoning is similar for service providers, however those with high technological content tend to privilege only green patent strategy as EMAS are less effective for services. Firms that adopt both green patents and EMAS are usually high-tech product providers pursuing a B2C model. Final goods producers also have strong incentives to pursue EMAS. In all cases resources availability was paramount in enabling firms to adopt value capture strategies.

Conclusions

This editorial has enriched the debate on innovation studies with reflections on ethics, responsibility and sustainability, which can no longer be neglected within firm-based innovation strategies. The selection of papers for this special issue allowed us to identify four themes that are central to the debate on how innovation can contribute to enhancing the success of the social innovation movement, namely 1) influencing inequalities, 2) supporting the creation of hybrid organizations, 3) promoting new business models for social objectives and for specific peripheral market segments and finally 4) pushing towards new sustainable solutions for the environment. The five papers in this collection, a part from the one on the DRUID debates, specifically contribute to this discourse by addressing innovation in complementary instances. First of all, we see that innovative firms risk perpetrating inequalities starting from their wage allocation, as well as in the wider society. In particular smaller firms suffer from these imbalances, whereas larger firms have balancing mechanisms such as trade unions to mitigate this factor. To avoid generating inequalities, firms have to reconcile their profitability and innovation objectives with a wider set of aims and logics. This means turning into hybrid organizations, which require hybrid business models, and who must identify common elements that can have meaning in the different profit-seeking and social/environmental impact logics in order to obtain their smooth integration. Making these business models sustainable requires specific sensing, seizing and reconfiguring capabilities, according to whether current for profit models are being modified to incorporate social objectives or whether entirely new social business models are being developed. If this innovation is successful, social enterprises can also address more marginalized segments of society with a for-profit model, by gradually adjusting their business models and by taking into account the peculiar characteristics of these segments. Finally, these enterprise may require the development and appropriation of new technologies, for instance to ensure environmental compatibility of the firms' supply chains, which can take on different forms according to the underlying technology and firm type.

We believe this special issue represents a relevant milestone for both the past and future research agendas, highlighting an essential value and critical role of the intersection between managerial studies, including innovation studies, and Ethics, Responsibility and Sustainability issues, in the academic and practice debates. It indeed provides an original review of the main topics addressed by the emerging field of management and innovation studies when it incorporates new social challenges, such as the mitigation of inequalities or business model innovation and environmental preservation, which are faced by citizens and enterprises in the current economic scenario. In addition, it provides a fertile ground to inspire new researchers who wish to contribute to this emerging debate, who may address, among others, the following illustrative research questions: How do open innovation principles apply to social enterprises and when can they benefit from these?; What is the role of end-customers in soliciting firm transition towards more sustainable objectives?; Aside from the role of practices in enabling the harmonization of different (hybrid) objectives, what role could assets and competences have in pivoting towards more sustainable business models?; How do entrepreneurial ventures empower marginalized individuals and how (and to what extent) do

they capture value from this activity without experiencing a mission drift?; To what extent do patent ecosystems for green technologies support the greening of supply and value chains?

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