

# From CSR to Eco-innovators

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# Various faces of firms

- owners can be (an) individual(s), shareholder(s), co-operation members, communal, state.
- directors (executives) can be: autocratic, democratic, collective, networking, anarchistic;
- stakeholders can be: in opposition, contractors, co-creators, partners, shareholders (e.g. pension funds).

Manage is “... getting things done through other people”, or politely: “coordinating the efforts of people towards common goals.” Hofstede, 2007, p 412-413

# Various views on firms

- Efficiently reduce negotiation costs through risk-taking shareholders (principles) that contract directors (agents); agents to principles a “shareholder value”, principles to society “social responsibility” (profit)  
Coase 1937, Williamson 1985.
- “Frankenstein’s monsters, capable of doing evil”; put independent ethical boards members, integrity checks, create “open environment where anybody can express disagreement over... wrongdoing by the corporate leaders” For CII N.R. Narayana Murthy, 2009)

# Archetypes of corporate governance

- Managerial (Anglo-Sax): owner-manager contracts, financial markets, dynamic but low trust
- Alliance (Rhineland) : reciprocal relations, bank dependent, risk-avoiding but dedicated.
- Personal (Asian): family owned, low liquidity, co-optation with privileges but low quality

based on Carney & Gedajlovic, 2001, Welford, 2007

Variety within the archetypes; all can be good or bad, corruption in US, Europe and Asia, e.g. Enron, AH, Parmalat, banks

# Various faces of profit

Firms prime objectives can be:

- **shareholders value** short-term maximal profit, e.g. banks
- **continuity** long term profitability, e.g. Shell
- **consumers value** market share (“optimal” profit) e.g. Unilever
- **family assets**, re-investing profits e.g. Stena
- **social value** stable (“reasonable”) profit e.g. Infosys, co-operatives
- **secure future** assured stable return, e.g. pension funds,
- **state income** continues tax income (e.g. public enterprises)

All can be profitable or not profitable

# Various faces of CSR in Asia

- US and EU firms care for labour, less external, low citizens rights; Asia more on policy, corruption less labour and civil rights R. Welford, 2004
- Large firms in Asia, ex Japan: only 8% have a CSR report, much charity, little HRM and environment, rarely CSR in local firms (Chappel and Moon, 2005)
- Japan: many reports after 1990 due to foreign investors, little on internal issues (HRM) much on external networks. Sustainability Reports Index Tanimoto, 2004
- China: work safety is priority, environment disliked, “a must”, much “sugar coating” (Steger et al 2003)

# Various CSR content

## Social issues in the business practices:

- Economic issues, like GNP and Debt to Service Ratio
- Social issues, like Schooling rate and Human Rights Index
- Environmental resources, like Fuel and Waste

Number of indicators based on UNEP, OECD, EU/Eurostat, Certificate, WWF (Satisfaction indicators are not included)

Indicators	Economic	Social	Environment	Total
Pressure	13	0	72	85
State	5	18	46	69
Response	2	3	50	55
Total	21	21	168	209

Too many to integrate in business decisions?

# An attempt to harmonize content

A checklist using prime component analysis, in an inventory find the factor that is strongly linked with many others

- Good side: normative decision avoided
- Down side: selection steps difficult to trace

<b>nr</b>	<b>Selection criteria</b>	<b>Excluded</b>
209	relevant, measureable	Across sectors en chains
83	redundant	Redundant, inconsistent
43	one of pressure-state-response	Mostly state and response
12	Added 25 leading opinions	Link opinion with indicator
14	LCA's 19 food, 10 hygiene	Factors <80% coverage

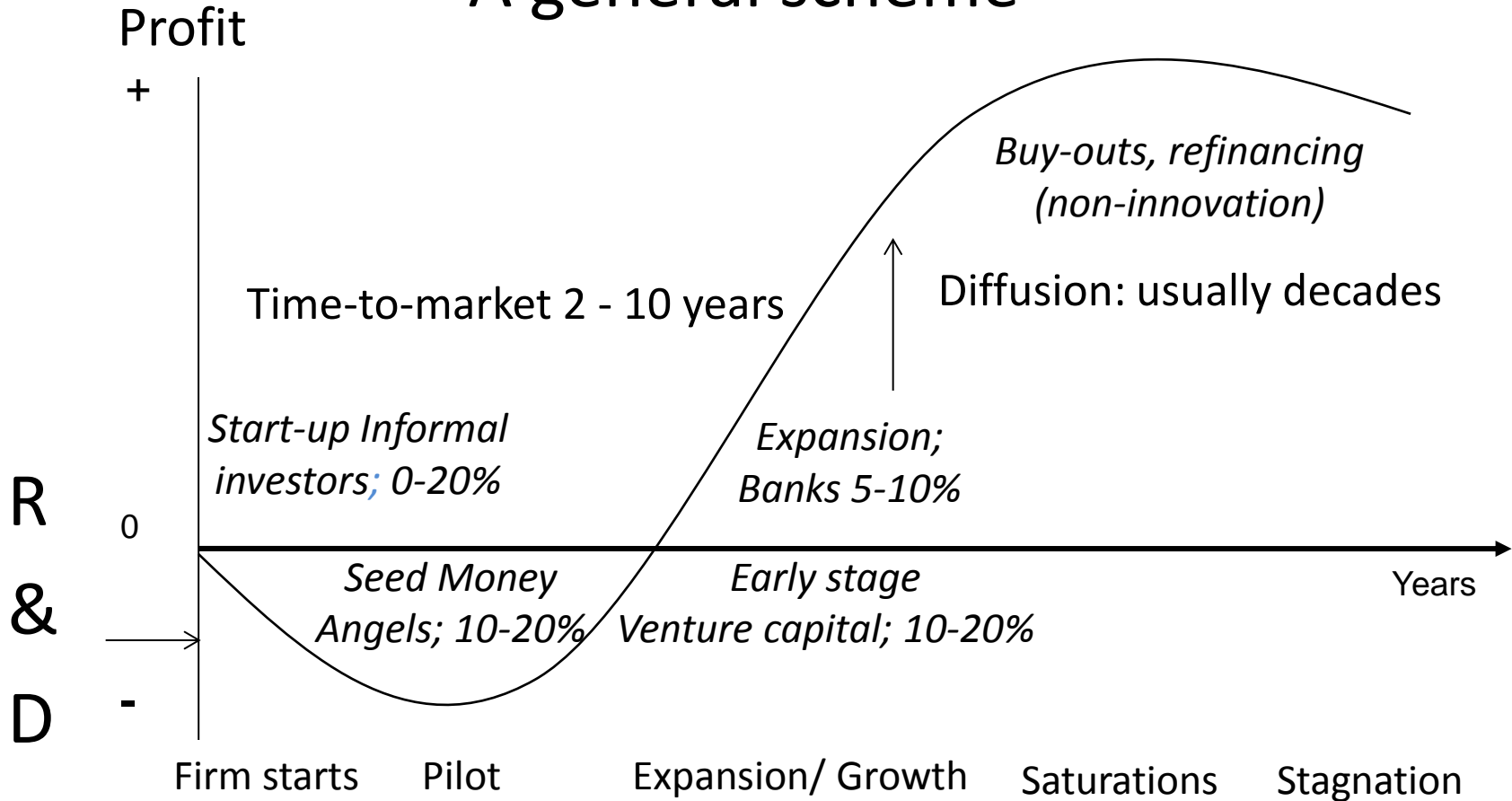


# A checklist for CSR

Title of the indicator	Measurable unit (e.g.)	Possible additional specifications (e.g.)
<b>Economic indicators</b>		
1. Value added	Market price to cost	Division by main cost factor
2. Local economics	Local profit to expenditure	Possibly including taxation
3. Dedicated sourcing	Rate of dedicated supplies	Development of supply criteria
<b>Social indicators</b>		
4. Compliance	Rate of non – compliance	Specification of non – compliance
5. Consultations	Reported consultations	Public reporting
6. Product functionality	Periodic internal reviews	Needs indexes (nutrition, hygiene, etc.)
7. Vocational schooling	Hours schooling to work	Group participation
8. Product safety	Rate of contamination	Periodic updates of controls
9. Process safety	LTA, Loss by incidence	Labour illness rate
<b>Environmental indicators</b>		
10. Materials	Material use (kg) per product	Share renewable use (recycling) Weighting for a hazard index
11. Transport	Mileage (kmt) per product	Mean of transport
12. Space use	Square meters per product	Possibly type of the location
13. Fuel use	GJ per product unit	Share of renewable energy
14. Water use	Water m <sup>3</sup> per product unit	Share potable water Share internal recycling

# Innovators and Investors

## A general scheme



Percentage is real rent (corrected for inflation)

# Private and public financing

- Assumption is “Valley of Death” between start and expansion due to costs without income
- Scarce financing “Valley of Death” because of uncertain results and low securities (high risks)
- Mainly private equity financing (participation) instead of loans (banking)
- Many policy instruments and public funding for the individual innovators
- Is it Valley of Death or uncertain demand the main problem?

# Instruments asymmetry

- Eco-innovations are purposed for the private and public benefits
- Extra costs to address both, but the public benefits deficient or intangible due to market and policy imperfections
- Many supply-oriented policy instruments for individual firms (e.g. grants, fiscal, guarantees)
- Rare demand-oriented policy instruments, (e.g. feed-in tariff, certificate, performance service)

# Knowledge - asymmetry

Knowledge – asymmetry is mistrust: the innovators expect that the investors grab know-how (spill-over) and investors expect that the innovators are biased in favour of their invention (both can be right)

Eco-innovators (Cleantech in US), Front runners) face spill-over (competitors) plus deficient markets and policies

- Private investments in eco-innovations though low grow fast but chance for private investment is 3-4%,
- Chance for public support is 21%, though public fund for “eco” in total is only 4% (lower funding per innovation)

# Eco-innovators and Eco-Investors

- Consensus across eco-innovators and investors enables policymaking.
- Consensus within an interest but difference across cause a policy bias (policy sensitive to lobbies)

Finding (15 eco-investors and 12 eco-innovators)

- **Hardly consensus across interests:** only that funds for the growth are scarce and more knowledge is needed
- **Policy bias on several issues:** about private capital, strict demands versus more grants, risk-taking public funds, more quality assessments (Krozer, 2012).

Workshop: presentations of your business  
2 minutes per person