

The Ethical Dilemmas of Innovative Enterprises

Paul H. Dembinski

Madrid – III Encuentro de Economía Ética
Universidad Nebrija - 19 de enero 2005

Disponible sur www.obsfin.ch/Participationconf.htm

Observatoire de la Finance

1. How to define «innovation »?

- According to the OECD « Oslo Manual » (1997)
 - A. « A technological product innovation is the implementation/commercialisation of a product with improved performance characteristics such as to deliver objectively new or improved services to the consumer.
 - B. A technological process innovation is the implementation/adoption of new or significantly improved production or delivery methods. It may involve changes in equipment, human resources, working methods or a combination of these »
- Not considered by the « Oslo Manual »:
 - A. Other creative product improvements (not considered in the Oslo manual) provide largely subjective improved customer satisfaction based on personal taste and aesthetic judgement, and/or derived from following fashions, and/or brought about largely by marketing.
 - B. Organization and « business model » innovations: new configurations and arrangements of the « value chain » (ex. e-commerce)

Observatoire de la Finance

2

- Innovation is often opposed to extension of the existing:
 - qualitative vs. quantitative change in Marxian terms;
 - technological innovation has an absolute (macro) meaning (patents) whereas « subjective innovation » and « business model » innovations have a relative (enterprise level) meaning;
- From an economist's perspective: every innovation boils down to the same :
 - ☞ higher performance – productivity ;
 - ☞ higher returns on investment (RoI)
- Different drivers of innovation:
 - ☞ Science push – new technical possibilities;
 - ☞ Market pull – customer needs, wants, tastes;
 - ☞ Efficiency driven – accounting effects.

Observatoire de la Finance

3

finance & bien commun common good

2. How to define « enterprise »?

- According to the classics (Aristotle), unlike « city » or « family », the enterprise is a « natural community »;
 - citizens as well as members of a family are bound together by a common future;
 - this is not the case for an enterprises, they are not eternal;
 - in consequence « family enterprises » have something special;
- According to the economic profession, the enterprise is the locus of creation and distribution of « value added ». This implies that it is simultaneously :
 - The locus of cooperation of different parties (factors of production) to the enterprise (positive sum game);
 - The locus of confrontation of confrontation of the same parties (zero sum game);
 - Which of these dimensions prevails depends on mutual trust, time horizon, general goals, etc..

Observatoire de la Finance

finance & bien commun common good

Each enterprise has four dimensions

- according to Aristotelian multi-causal approach (also Dherse, Compte-Sponville)
- A « matter » - *homo faber* and his needs;
- A legal « form » – joint stock, or partnership;
 - depending on the legal environment
- An « efficient cause » : its acting management and decision making process, entrepreneurial spirit;
- A « finality » - exogenous (shareholder value à la Friedman) or endogenously generated (CRS approach);

In consequence generalisations are thus difficult and dangerous

Observatoire de la Finance

finance & bien commun common good

3. The heterogeneity of enterprises

Country	0 - 49	50 - 249	250 and over	0 - 19	20 - 99	100 - 499	500 and over
Czech Rep.	45%	8%	47%				
Germany	49%	11%	40%				
Switzerland	51%	19%	30%				
Ireland	48%	21%	32%				
Poland	46%	17%	37%				
France	45%	18%	37%				
Portugal	62%	18%	20%				
Spain	67%	13%	20%				
Canada				20%	18%	18%	45%
United States				20%	15%	15%	48%

© Observatoire de la Finance and United Nations, *Economic and Financial Globalization: what the numbers say*, 2003. <http://www.obsfin.ch>

Observatoire de la Finance

5. Ethical Dilemmas

- Innovation – patents and ownership rights:
 - Two sides of product innovation: "additional satisfaction" and "increased returns";
 - Turning research expenses into innovations and innovations into assets and ownership rights and then running assets to generate returns;
 - J. Rifkin : Age of Access: today flows of revenue is more important than bare ownership of assets
 - What are the ethical limits to intellectual property rights? (pharma industry – the internet)
- SMEs & Very Big Enterprises:
 - Innovators & process organizers;
 - Uneven strength and sharing in the Value Chain
 - Transfer pricing as a method of levying a worldwide rent on innovation and proprietary knowledge;
 - In North-South dimension : a method of preserving the flow of revenues to the North

Innovation: for whose sake?

- Ethos of efficiency, the final cause in modern enterprises, is driving innovation;
 - Technical efficiency – science push innovation;
 - Economic efficiency – market pull innovation (mass marketing)
 - Financial efficiency – today 15% ROI is perceived as a metaphysical norm forcing replacement innovation
 - ☞ *Betbeze : 10 Commandments of Finance – sustain the 15% ROI*
 - ☞ *Homo financierius – his horizon : risks and returns*
- OECD governments and TNC agree: innovation is today a unquestioned must, and most of the proprietary knowledge has to be protected.
 - This may well prove to be nothing more than a cynical – but sophisticated - method of securing the returns on assets of the ageing northern population.

Tentative conclusion

- Innovations has lost today any ethical connotation of "betterment", or "progress" in welfare sense; marketing efforts are more important than R&D expenses
 - What are the limits of the sustainable – for consumers - speed of innovation?
- "Ethos of efficiency" and the requirement of financial performance hinders cooperation within enterprises and thus puts their radical innovative capacity in danger
 - Trust vs. permanent contracting and opting out;
 - Risk management strategies at all levels;
 - Who owns knowledge, the enterprise or the people?
 - "Managers not MBAs !!" – Mintzberg 2003 -the responsibility of Business Schools and Universities is huge
- Enterprises with other final causes are emerging : open source in software; the solidarity based enterprises.
