Research Project on Equator Principles

January 2009 - December 2010

Exploring self-reinforcing and self-undermining processes of CSR standardization: The case of the Equator Principles

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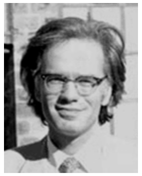

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Research interest based on rapid diffusion of EP standard

Why and how do certain CSR initiatives diffuse extensively, becoming de facto standards in a globalized industry?

The EP standard is described as a “success story” and portrayed as widely disseminated. Is this an empirically adequate assessment?

What can be learned from the Equator Principles initiative for other, comparable efforts of CSR standardization?

Crucial distinction: We focus on diffusion in terms of project volume covered by EP. We do not primarily look at adoption numbers or implementation depth.

Standardization process explored by qualitative approach

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- Historical analysis of project finance volume (EP vs. non-EP-banks)
- 26 semi-structured interviews (30-60 min. each; phone or face-to-face)

Sample split by	
Institution	12 EP-adopting financial institutions 4 Non-adopting financial institutions 3 NGOs 7 Further experts
Geography	18 in Europe 4 in United States 3 in Asia 1 in Latin America
Function (within banks)	7 CSR/sustainability department 8 Risk management department 1 Corporate communications department

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Overview of findings: What factors do influence EP diffusion?

Past factors of EP diffusion

Self-reinforcing processes

Self-undermining processes

Strengths

- Dedication of major players
- NGO as watchdogs
- IFC as facilitator
- Syndicate structure
- High applicability of EP

Weaknesses

- Exit door strategies

➔ Re-Labelling
➔ Re-Classification
➔ Differing internal standards

Opportunities

- Strong EPFI community
- Expansion of scope beyond project finance
- Proactive outreach activities

Threats

- EPFI share in project finance in decline
- Non-EPFI banks increase project finance volume
- New, hybrid financial instruments

Future factors of EP diffusion

Strengths: What factors have promoted EP diffusion?

Actors

- Major market players' desire to create level playing field. Commitment to engage with socio-environmental issues
- NGOs' powerful watchdog role and reputational leverage
- IFC's role as co-initiator and active promoter of EP idea

Industry

- EP standard promoted by reputational risks and high visibility of projects that may result in project failure and loss of investments
- Syndicate structure: EP applied as soon as one EPFI involved in a project

EP standard

- High degree of concreteness and direct applicability
- Has evolved to a "lived standard" featuring regular meetings of EPFIs

Weaknesses: What factors have inhibited EP diffusion?

Vague definition of project finance, easy “exit door strategies”

Re-labeling of business field (“We don’t do project finance”)

Re-classification of projects (“This is a B+ project”)

Banks applying own standards (“Our internal standards are more rigid”)

Opportunities: What factors may promote future EP diffusion?

Strong community of EPFI representatives and institutionalized meetings: unique opportunity for exchanging best practices

Efforts to expand EP criteria to other business fields beyond project finance (e.g., credit risk finance, corporate finance)

Desire of NGOs to both foster EP reach and depth

Proactive outreach strategy of EPFI, IFC, and national governments, aim for making EP a truly global standard

Threats: What factors may inhibit future EP diffusion?

According to most recent figures of Infrastructure Journal, EPFI's share of global project finance volume is in decline since 2007.

Recently non-EPFI banks (especially from China, Middle East) have increased their share of global project finance volume.

"Project finance had its days": Banks move into new, hybrid financial instruments beyond classical project finance, e.g., by drawing on instruments of corporate finance.

Recent figures raise doubts regarding EP relevance

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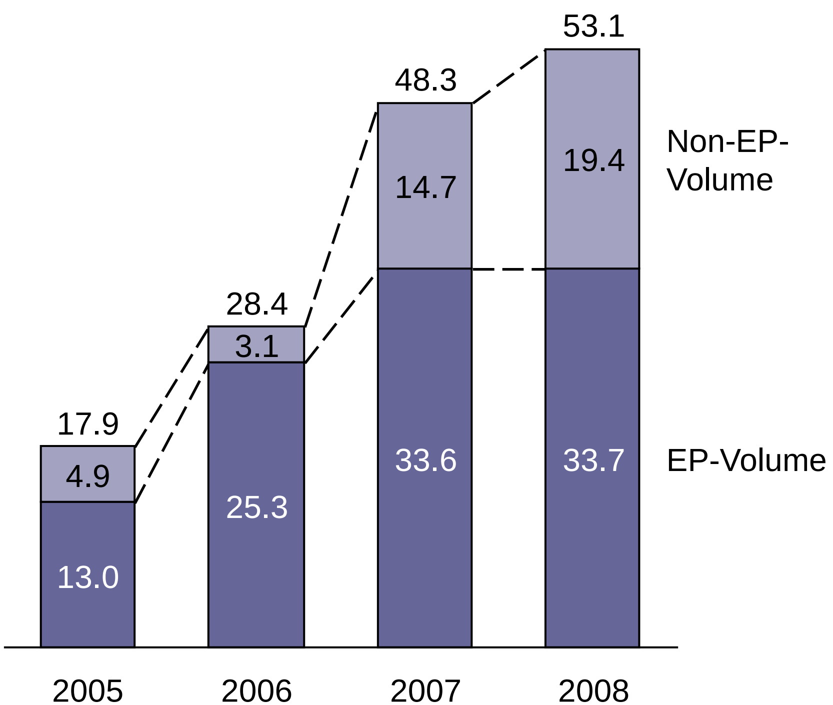
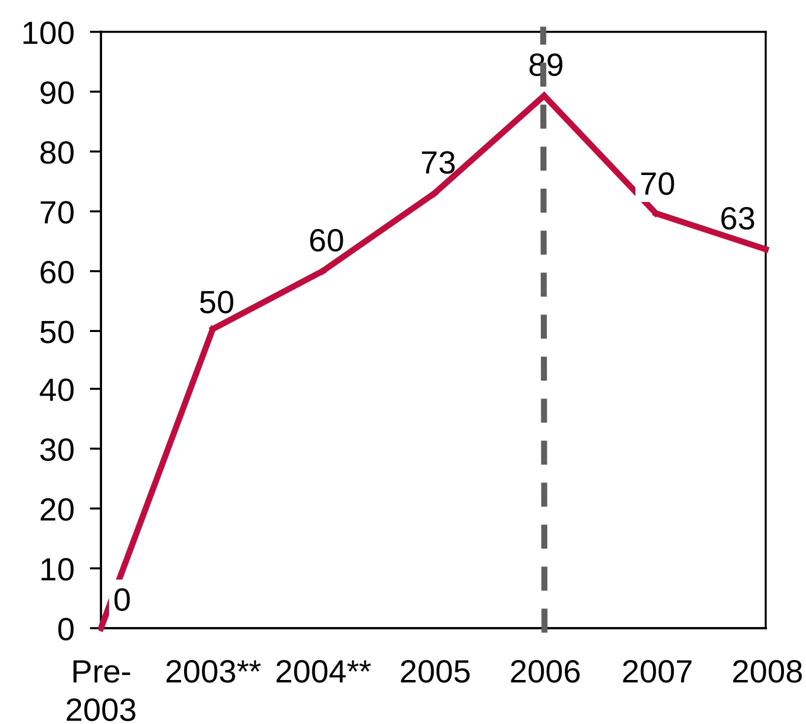
Global project finance volume (in B$)*



* Figures by Infrastructure Journal (2009); own analysis
** 2003-2004: Estimated figures

EP-share of project finance volume (in %)*



Conclusion

The EP-standard has diffused rapidly thanks to the commitment of NGOs, major market players, and the IFC

EP case shows that CSR standardization cannot be conceived as the passive adoption and automatic diffusion of homogenous practices

Considering the underlying factors driving the decline of EP compliant project volume the outcome of EP diffusion appears uncertain

A major challenge of EP standardization relates to coping with identified exit door strategies and loopholes, hybridization of project finance and project finance volume dislocation to non-EPFI

Next Steps

2nd interview wave planned for Fall/Winter 2009 with main focus on project volume decline and potential threats to EP diffusion

Preparation of academic paper for special issue in journal *Organization Studies* (in February 2010).

Preparation of practice-oriented paper

Potential follow-up: Comparative case study with other CSR standards (i.e. UN Global Compact)

Contact

Thank you very much for your cooperation and your interest in our research.

We will be very grateful for your feedback.

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