SEMINARIO

Denis Claude

Laboratoire d'Économie de Dijon, Université de Bourgogne Franche-Comté, France

A new rationale for not picking low hanging fruits: the separation of property and control

Abstract: Technological innovations make possible a continuous improvement of the energy efficiency of industrial systems. The optimization of production processes in combination with the acquisition of innovative energy efficiency solutions enables better energy management and performance. These improvements are deemed to be profitable since they strengthen the competitiveness of the firm while enabling the achievement of social and environmental responsibility objectives such as reducing pollutant emissions. From this perspective, firms should seize every opportunity to improve their energy efficiency. In actual practice, however, even investments that involve low up-front expenditures and generate quick returns may fail to materialize. An abundant literature has investigated this apparent paradox. Suggested explanations include artificially low energy prices, underestimated implementation costs, information deficits, uncertainty and irreversibility of investment, market failures and cognitive biases. The present paper suggests a new rationale that rests upon the strategic value of credible commitment (Schelling, 1960). Following the strategic delegation literature, we consider a two-stage sequential game in which each firm's owner has the possibility to delegate production and investment decisions to a manager. In this context, profit-maximizing owners may design compensation contracts so as to induce managers to pursue objectives that differ from profit maximization. We show that the equilibrium incentives embedded in compensation contracts may require managers to ignore all or part of energy costs in their production and investment decisions.

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