INVESTOR INFLUENCE ON CORPORATE SUSTAINABILITY

Spring 2014 (B) Term

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Course Number: B8423

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REQUIRED COURSE MATERIAL

Readings will include both academic and non-governmental organization studies of responsible investing concepts and real life cases, including media reports on public issues relevant for corporations, shareholder proposals and company corporate social responsibility (CSR) reports. (Please note that because we will be discussing current issues in this class, the readings list or cases may be updated prior to the start of the class to reflect recent developments).

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

There are no prerequisite courses.

The learning in this course will build on and extend the content covered in the following core courses:

Global Economic Environment: This course extends the content in Global Economic Environment to consider how long-term social and environmental trends, such as climate change or water scarcity, may impact the context in which investors and corporations operate, and in turn how corporate activity may shape these trends. The course also explores how the financial market participants can address these concerns beyond their role of allocating capital.

Leadership Development: Leadership in business ethics is central to the philosophy of sustainable investment. The cases developed for this class will enable students to draw upon negotiation skills learned in the core leadership program to influence corporate policy and help resolve conflicts between business activities and societal concerns.

Managerial Economics: A key focus of this class will be to explore how attention to stakeholder concerns may help to address a key source of business and economic uncertainty.

Strategy Formulation: Many companies now view sustainability as a lens through which to view long-term corporate strategy. The course will provide an opportunity for students to use business strategy skills to analyze the potential strategic impact of social and environmental concerns, and to recommend more sustainable business models that are well-aligned with long-term shareholder interests.

COURSE DESCRIPTION
Should investors care about the social impact of the companies in their portfolios? Can a company’s relationship with society impact its investment performance? Should investors try to shape corporate behavior or just sell shares if they disagree with management? How do shareholders use their voice to influence corporate policy? How do corporations respond? What are the possibilities and limitations of shareholder influence? Does it matter?

As fractional owners of companies, shareholders possess the right to influence corporate policies on environmental and social concerns. Following a decade of corporate scandal, financial crisis, and increasing concern about climate change and globalization, interest in using these powers is growing beyond the small community of religious and socially conscious investors who have traditionally raised these concerns with corporations.

By 2012, over 900 institutional investors with assets of over $30 trillion had endorsed the United Nations Principles for Responsible Investment (UNPRI). Signatories to the UNPRI pledge to be “active owners,” engaged directly in the governance of the companies in which they invest. In response, nearly 6000 companies worldwide now publically report on their social responsibility policies and practices.

This course will explore emerging questions regarding corporate social responsibility from the perspective of the investor in public equities. Students will learn how investors engage directly with corporate boards and management to address sustainability concerns and improve long-term performance.

In-class exercises may include:

1. Discussing the relevance of certain public issues from an investor perspective;
2. Debating whether investors should support shareholder proposals;
3. Evaluating CSR reports; and
4. Conducting a mock shareholder/company dialogue and drafting mock shareholder proposals.

**COURSE OBJECTIVES**

After taking the course, students should be able to understand and assess:

1. Diverse perspectives on the link between sustainability and shareholder value;
2. The environmental, social and governance issues of interest to investors;
3. Shareholder strategies to incorporate sustainability and responsibility into investment strategies;
4. Corporate responses to governance and sustainability concerns; and
5. Challenges to responsible investment and emerging trends in the field.
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* The designated group can be either an assigned study group or a self-selected one.

The course is intended to comprise 12 sessions.

The class will employ limited lecturing to introduce the basic concepts and an analytical framework for evaluating dilemmas facing institutional investors.

Later sessions will feature discussions of case studies based on real-life shareholder proposals and company sustainability reports. These exercises may include:

1. Discussing the relevance of certain public issues from an investor perspective;
2. Debating whether investors should support shareholder proposals;
3. Evaluating CSR reports; and
4. Conducting mock shareholder/company dialogues and drafting mock shareholder proposals.

The format of these discussions will depend on the size of the class. If the class is small, the entire group may discuss the same topic. If the class size is larger, the class may split into groups, discuss different topics and then compare responses.

Students will complete the following assignments:

1. Students will write a shareholder proposal (500 words maximum) selecting a company from a list of options. 
   **Assignment type C, due April 9.**

2. Students will write a 4-6 page paper analyzing and evaluating a corporate social responsibility report and will present their analysis to the class for discussion. **Assignment type A, due April 16.**

3. Students will participate in a mock shareholder dialogue. Student teams will select a shareholder proposal written for assignment 1, and negotiate towards an agreement with the company. Students will then draft a 5-10 page paper.
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summarizing the key issues and evaluating the success of the dialogue. Assignment type A, role plays will take place April 30; writeup due date May 6.

Assignments may be modified depending on class size.

METHOD OF EVALUATION

The students will be evaluated as follows:

Short Papers: 40%
Final Project: 35%
Class Participation: 25%

The importance of the participation grade will depend on the size and composition of the class. I will be mindful that some students may be hesitant to participate in large group discussions despite having useful insights. I will seek to reward students for their mastery of the material regardless of how they are able to communicate it.

CLASSROOM NORMS AND EXPECTATIONS

In order to fully explore the complex and difficult issues raised at the intersection of business and sustainability, students must be fully engaged and prepared to offer diverse perspectives. Accordingly, class expectations will be as follows:

• Attendance at all class sessions is mandatory. Class will start on time. The teaching assistant will take attendance at every session and will record students who come in later than 5 minutes after start time as absent. Legitimate reasons for missing class, such as illness, should be communicated to the professor in advance.

• Please limit the use of electronic devices to classroom purposes only. Cell phones should be turned off during class.

• Students should display their name cards during all sessions.

• Readings and case studies are an integral part of the learning process. Students should come to class having read all of the required readings and the cases for that day. A short Q&A may be posted online to test students' comprehension of the required readings. Because in-class discussion will focus on cases, students will need to have read them in order to participate fully in the class discussion.

• Recommended readings will allow students to explore topics of interest in more depth.

• Participation is expected from all students, though quality is more important than quantity or assertiveness. The class will offer several different kinds of opportunities for students to contribute, including discussion, role play, and presentation.

• All class participants will treat each other with respect, welcome diverse perspectives, disagree collegially, and offer and accept constructive feedback.
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<tr>
<th>Date/Time</th>
<th>Topic</th>
<th>Activities</th>
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<tr>
<td>March 26</td>
<td>The Political Economics of Sustainable Investment</td>
<td>Coca-Cola in Colombia (A&amp;B)</td>
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<td>April 2</td>
<td>The Investor Perspective: Strategies for Effective Company Dialogue</td>
<td>Coca-Cola in Colombia (C)</td>
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<td>Analysis of shareholder proposals:</td>
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<td>Emerson Electric</td>
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<td>April 9</td>
<td>Corporate Social Responsibility: Strategy, Disclosure and Engagement</td>
<td>Cases: Coca-Cola in Colombia (D)</td>
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<td>Emerson Electric’s Sustainability Report</td>
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<td>Guest Speaker: Dave Stangis, Campbell’s Soup</td>
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<td>April 16 (A)</td>
<td>Evaluating corporate social responsibility reports</td>
<td>Assignments due with student presentations</td>
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<td>April 16 (B)</td>
<td>Challenges and Emerging Frontiers</td>
<td>Guest Speaker Bruce Kahn, Sustainable Insights Capital Management</td>
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<td>April 23 (A)</td>
<td>Current Issues: Environmental: Climate Change</td>
<td>Mock Dialogue: College Endowments and Unburnable Carbon</td>
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<td>April 23 (B)</td>
<td>The Stakeholder Perspective</td>
<td>Guest Speaker: Michael Sadowski, SustainAbility</td>
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<td>April 30 (A)</td>
<td>Current Issues: Bangladesh and Labor Rights</td>
<td>Mock Dialogue: Shareholders and Urban Outfitters</td>
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<tr>
<td>April 30 (B)</td>
<td>Student Presentations</td>
<td>Projects Due; Guest Expert: Ariane Van Buren, Colombia University</td>
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WEEK 1: THE POLITICAL ECONOMY OF CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT

We will examine evolving definitions of sustainability from an investor perspective, emphasizing the motivations of “universal owners” for pursuing sustainability strategies. We will also the debate over whether, and under what circumstances, sustainability may have an economic impact on investment performance.

Discussion Questions:

1. What is corporate social responsibility? How has society’s understanding of the responsibilities of corporations in society evolved over time?

2. What is active ownership? What voice do shareholders have in corporate policymaking?

3. What motivates shareholders to become active owners? Is corporate social responsibility a form of philanthropy or a business imperative?

4. What are the different ways of assessing the impact of sustainability on investment performance?

Case:

(This case should be carefully prepared prior to class)

Coca-Cola In Colombia (A&B)

Required Readings:

(These readings can be skimmed for the main idea)

http://www.nytimes.com/2007/08/12/magazine/12exxon-t.html?pagewanted=all&_r=0

“Value Maximization, Stakeholder Theory, and the Corporate Objective Function,” Michael C. Jensen, October 2001


“Let’s stop investing our retirement funds in lethal weapons,” By Adam Kanzer, Reuters Blog, January 9, 2013
WEEK 2: SHAREHOLDER STRATEGIES FOR ENGAGEMENT

This module will explore the various active shareholder strategies to incorporate ESG into investment strategies, including proxy voting, corporate dialogue and shareholder resolutions. Case studies will examine the potential for shareholder influence and its limits.

Discussion Questions:

1. What rights allow shareholders to influence corporate policy? What informal mechanisms exist?
2. How do shareholders determine priorities for engagement and standards for proxy voting?
3. What approaches to shareholder engagement are most likely to produce positive outcomes?
4. How do investors measure progress in shareholder engagement?

Cases:

Part I:

(a) Cypress Semiconductor/Sisters of Saint Francis
(b) Coca-Cola in Colombia OR TIAA-CREF Policy Statement on Corporate Governance, 6th edition, 2011 (especially pps 1-7;15-16; 20-21) [assignment will be discussed in class]

Part II:

For each company, please review the proposal and company statement of opposition as found in the proxy materials:
1. Emerson Electric – Sustainability
2. Halliburton – Human Rights Assessment
4. Alpha Natural Resources – Water
5. Abbott Labs – GMOs
6. Chevron – Political Contributions
7. Universal Forest Products – non-discrimination

Required Readings:

Skim

“Putting Human Rights on the Agenda: The Use of Shareholder Proposals to Address Corporate Human Rights Performance,” Adam M. Kanzer, in Finance for a Better World, 2009
WEEK 3: CORPORATE SOCIAL RESPONSIBILITY

This module will examine CSR from the corporate perspective, emphasizing the relationship between the corporation and its outside stakeholders, such as workers, communities, customers and regulators. We will develop the idea of a business case for sustainability as well as different corporate strategies for responding to calls for greater attention to social responsibility. A guest speaker (TBD) will discuss how corporations view shareholder and stakeholder interactions.

Discussion Questions:

1. Who are corporate stakeholders and how do companies balance their interests?
2. How do companies respond to pressure from stakeholder groups and shareholders?
3. What motivates companies to take action on social responsibility? How do companies analyze the business case for social responsibility relative to other business priorities?
4. What are best practices for public reporting and engagement with shareholders?

Cases:

Coca-Cola (D)


Emerson Electric Citizenship Report 2012

Required Readings:

Skim for main idea


Global Reporting Initiative Website:

CDP Website

Campbell’s Soup Sustainability Report, Executive Summary

WEEK 4: SUSTAINABILITY REPORTING (CONTINUED); EMERGING CHALLENGES AND FRONTIERS

The first half of week we discuss the analyses of CSR reports prepared in assignment #2.

The second half of the session will introduce the emerging challenges and opportunities related to corporate social responsibility, possibly led by a guest speaker. We will explore recent innovations in the field, such as “integrated reporting” that seek to expand the influence of social responsibility in the market, new definitions of responsible investing, and the expansion of sustainability into private equity.
**Required Readings:**

*These Readings should aid you in preparing your company analysis*

“How to Read A CSR Report,” Steve Lydenberg, 2010

Valuing Corporate Responsibility, Rory Sullivan, Chapter 4

**WEEK 5: CURRENT ISSUES –Environmental: Climate Change**

In weeks 5 and 6, we will examine the issues of most interest to investors as applied to key sectors and discuss the interplay between specific social and environmental issues and shareholder value. The classes will consist of mock dialogues among students playing the roles of company representatives and investor advocates.

Required readings are intended to provide a general overview of the issue to all students. Further reading will be necessary for students participating in the dialogue for each particular issue.

In Session 5 we will consider the issue of Climate Change and Labor & Human Rights.

**Discussion Questions:**

For each of the issues discussed in weeks 5 and 6, we will consider the following questions:

1. How does company behavior with regard to the issue impact stakeholders, positively and negatively? What is the impact on investors? Is the rationale for engagement primarily economic or non-economic?

2. Why was this company selected as a target? How is the issue relevant to company strategy and performance?

3. How effectively from the shareholder perspective has the company addressed the key issues? Why does the company resist the shareholder request?

4. What barriers exist to achieving an agreement? How might these barriers be overcome?

**Readings and Cases:**

World Resources Institute. “World’s Carbon Budget to be Spent in Three Decades.” (September 2013)


“Oil & Carbon Revisited: Value at Risk from Unburnable Reserves.” HSBC Global Research January 2013

The Financial Case for Fossil fuel divestment, by Bevis Longsreth, former SEC Commissioner, Huffington Post, November 2013

UC Davis. “Study finds investors in U.S. oil, gas companies have not ignored the science behind unburnable carbon, but considered multiple factors.” (January 2014) **Recommended: If you have time, download the actual study and read the**
SESSION 6: CURRENT ISSUES (Continued)

In the first half of Class 6, we will consider the issue of labor rights and the contract supplier system, with a focus on Bangladesh. After an overview of the issues raised by the Rana Plaza disaster and other safety incidents in supplier factories, students will take part in a mock dialogue between shareholders and a company on this issue.

In the second half of the class, students will present their final projects to the class.

At the end of the class, we will have an informal discussion on the topic: “What’s next for corporate sustainability?”

Discussion Questions:

TBD

Readings:


The New Yorker. “Death Traps: The Bangladesh Factory Disaster” (May 2013)

“Safety Inspections By Social Audit Firms For U.S. Companies Called ‘Facade' By Labor Groups,” David Jamieson, Huffpost, May 8, 2013


“Can Global Brands Create Just Supply Chains?” Rick Locke, Boston Review, May 21, 2013, response by Issac Shapiro

The Accord on Fire and Safety in Bangladesh (May 2013)

Alliance for Bangladesh Worker Safety (2014)


“Protecting the Lives of Bangladesh Garment Workers: A Six Month Progress Report of the Alliance for Bangladesh Worker Safety” (February 2014) Introduction and Conclusion only

Rana Plaza Donors Trust Fund (January 2014)
Strife Curbs Progress at Bangladesh Garment Factories; Delays Attributed to Political Unrest, Industry Disagreements

Promoting Responsible Sourcing in Bangladesh, Wal-Mart, 2013

“Roadmap to a Fair Living Wage.” H&M, 2014

**Case:**

F&C Asset Management Statement on Bangladesh

Joint Investor Statements on Bangladesh (x2)

Urban Outfitters Statement on supply chain standards