B8423 INVESTOR INFLUENCE ON CORPORATE SUSTAINABILITY

Spring 2017

WJW 416

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Office Hours: By Appointment

TEACHING ASSISTANT

TBD

REQUIRED COURSE MATERIAL

There is no textbook for this class. Readings are derived from real-world case studies found in academic research, investment notes, non-governmental organization studies, media reports, shareholder proposals and company corporate filings and publications.

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

Does a company’s relationship with society have implications for long-term financial performance? What insights can investors gain about a company’s long-term risks, opportunities, and management quality from examining a company’s social and environmental policies? Do the owners of companies have influence over corporate policy? How do corporations respond to the use of shareholder voice? 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. Many investors now consider these issues to be of material concern for the long-term financial performance of companies and markets.

1500 institutional investors with assets of over $62 trillion have endorsed the United Nations sponsored Principles for Responsible Investment (PRI) as of April 2016. Signatories to the PRI 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. The class will develop analytical tools to evaluate companies’ long-term strategy and management through the lens of environmental, social and governance (ESG) issues. Students will also learn how investors engage directly with corporate
boards and management to address sustainability concerns and improve long-term performance.

This course will be relevant for students who are interested in pursuing careers in sustainability, and also any whose career paths include an interest in the long term performance of corporations. Business consultants and corporate executives may consider sustainability issues an alternative perspective through which to assess and develop corporate strategy. Equity analysts and portfolio managers may use environmental, social and governance factors to evaluate the long-term performance and risk factors of companies.

This course is highly interactive, centered on class discussion, small-group exercises, and outside speakers with current and diverse experience in this field. Our cases are drawn from recent and ongoing business and societal conflicts, offering students relevant insights into the challenges that managers and investors are currently facing.

In-class exercises may include:

1. Discussing the relevance of certain business challenges from the perspective of outside stakeholders, such as customers, suppliers, society at large and the environment;

2. Evaluating and debating shareholder proposals to management, and how companies should respond to external efforts at influence;

3. Evaluating company sustainability policies, strategies, and disclosures; and

4. Conducting a mock shareholder/company dialogue and drafting mock shareholder proposals.

COURSE OBJECTIVES

After taking the course, students should be able to:

1. Assess the specific environmental, social and governance issues concerns that may affect shareholder value for particular companies;

3. Employ tools of corporate influence in support of long-term investor objectives;

4. Anticipate and understand corporate responses to governance and sustainability concerns; and

5. Ask the right questions about specific global sustainability issues that may affect long-term corporate performance.
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<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Discussion of concepts</th>
<th>Preparation of submission</th>
<th>Grade</th>
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<tbody>
<tr>
<td>A</td>
<td>group / group</td>
<td>Permitted with designated group*</td>
<td>By the group</td>
<td>Same grade for each member of the group</td>
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<tr>
<td>B</td>
<td>group / individual</td>
<td>Permitted</td>
<td>Individually (No sharing of any portion of the submission)</td>
<td>Individual</td>
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<tr>
<td>C</td>
<td>individual / individual</td>
<td>None of any kind</td>
<td>Individually</td>
<td>Individual</td>
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<tr>
<td>D</td>
<td>(An optional category to be defined in detail by the individual faculty member)</td>
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* The designated group can be either an assigned study group or a self-selected one.

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.

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 5.

2. Students will work in groups of four. They will select one of the resolutions prepared for assignment 1, divide into two pairs and hold a mock debate in front of the class about whether shareholders should support the resolution. Assignment type B, due April 13.

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 paper summarizing the key issues and evaluating the success of the dialogue. Assignment type A, presentations will take place April 27; writeup due date May 3.

4. Take Home Final Exam: Students will write a 4-6 page paper analyzing and evaluating a corporate social responsibility report. Assignment type A, due TBD.

Assignments may be modified depending on class size.

METHOD OF EVALUATION

The students will be evaluated as follows:

- Assignments: 45%
- Class Participation: 40%
- Final Take Home Exam: 15%

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. There will be numerous opportunities to contribute and 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 and incorporated into the participation grade. 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. Your responses to questions posted about course readings are part of class participation and will be factored into the participation grade.

• All class participants will treat each other with respect, welcome diverse perspectives, disagree collegially, and offer and accept constructive feedback.

**COURSE OUTLINE**

<table>
<thead>
<tr>
<th>Date/Time</th>
<th>Topic</th>
<th>Activities</th>
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<tbody>
<tr>
<td><strong>March 22</strong></td>
<td>Corporate Governance, Sustainability, and Long Term Shareholder Value</td>
<td>Coca-Cola in Colombia (A&amp;B)</td>
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<td><strong>March 29</strong></td>
<td>The Investor Perspective: Strategies for Effective Company Dialogue</td>
<td>Coca-Cola in Colombia (C) Analysis of shareholder proposals</td>
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<td><strong>April 5</strong></td>
<td>Corporate Social Responsibility (I): Making the Business Case</td>
<td>Cases: Coca-Cola in Colombia (D) Guest Speaker: Dave Stangis, Campbell’s Soup Assignments Due: shareholder proposal</td>
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<td><strong>April 12 (A)</strong></td>
<td>Corporate Social Responsibility (II): Evaluating corporate social</td>
<td>Case: Emerson Electric</td>
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<td>Date</td>
<td>Topic</td>
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<td>April 12 (B)</td>
<td>Debate, Dialogue and Negotiation (I)</td>
<td>Assignment due: group presentations</td>
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<tr>
<td>April 19 (A)</td>
<td>Current Issues: Environmental: Climate Change</td>
<td>Case: Stanford Dumps Coal</td>
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<tr>
<td>April 19 (B)</td>
<td>Integrating ESG into Asset Management</td>
<td>Guest Speaker: Dan Hanson, Jarislowski Fraser</td>
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<tr>
<td>April 26 (A)</td>
<td>Current Issues: Social: Labor and Human Rights</td>
<td>Case: Urban Outfitters</td>
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<tr>
<td>April 26 (B)</td>
<td>Debate, Dialogue and Negotiation (II)</td>
<td>Assignment due: group presentations</td>
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Note: Because this course aims to be topical, the reading list may change prior to the start of the course.
WEEK 1: INTRODUCTION: CORPORATE GOVERNANCE, SUSTAINABILITY, AND LONG TERM SHAREHOLDER VALUE

To whom are corporate managers accountable? How are managers held accountable for performance? What happens when the interests of shareholders, corporate management and society at large diverge? Why do some investors care about the impact of companies on society at large?

This class will introduce and explore the concepts of “corporate governance,” “sustainability,” and “stakeholders” and explore why all of these concepts are important for long-term corporate performance.

Learning Objectives:

1. To identify the potential conflicts between companies and their shareholders and other stakeholders that may be material for financial performance.

2. To define the role of corporate governance in resolving the agency problem between shareholders and management.

3. To explore definitions of corporate sustainability and assess the influence of external stakeholders on corporate behavior.

4. To define shareholder voice and consider the motivations of some shareholders to become active owners of companies.

Case:

(This case should be carefully prepared prior to class)

(a) Cypress Semiconductor/Sisters of Saint Francis (To be distributed in class)

Required Readings:

(These readings can be skimmed for the main idea)


Shareholders and Stakeholders: “the tyranny of the or” Remarks at Asia Corporate Governance Roundtable, Anne Simpson Senior Specialist, PSACG, The World Bank Singapore, April 3 2001 [today, Ms. Simpson is Head of Corporate Governance at CALPERS]


“Are You Thinking Like A Universal Owner?” By John Wilson, Journal of Sustainable Finance and Banking, September 16th, 2014

“Let’s stop investing our retirement funds in lethal weapons,” By Adam Kanzer, Reuters Blog, January 9, 2013

WEEK 2: SHAREHOLDER STRATEGIES FOR ENGAGEMENT

How do shareholders influence corporations? What tools are available to communicate shareholder concerns to management? How does management respond?

This module will explore the various active shareholder strategies to incorporate ESG into investment strategies, including proxy voting, corporate dialogue and shareholder resolutions. We will examine the potential for shareholder influence and its limits through case study discussions and a brief role playing exercise.

Learning Objectives:

1. To distinguish power from legitimacy and negotiation from dialogue; To explore ways that shareholders achieve legitimacy with companies through dialogue.

2. To assess how shareholders determine priorities for engagement and standards for proxy voting.

3. To understand how shareholder resolutions raise investor concerns with management, and to anticipate corporate responses to shareholder resolutions.

4. To measure the progress of shareholder engagements.

Cases:

Part I:
Coca-Cola In Colombia (A&B)

Part II:

For each company, please review the proposal and company statement of opposition as found in the proxy materials:
Shareholder Proposals (To be distributed in Class)
   1. Emerson Electric – Sustainability
   2. Halliburton – Human Rights Assessment
   3. Omnicom – Equal Employment Opportunity
   4. Centerpoint Energy – Lobbying Expenses

Required Readings:

“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

What is the business case for sustainability? How do companies communicate their strategies for addressing sustainability concerns? How can these claims be evaluated?

This class will examine sustainability from the corporate perspective, emphasizing the relationship between the corporation and its outside stakeholders, such as workers, communities, customers and regulators. We will develop a framework for evaluation of the impact of sustainability issues on corporate financial performance. We will also specific examples of corporate best practices regarding sustainability.

Learning Objectives:

1. To identify key corporate stakeholders and company strategies to balance the sometimes competing interests of these stakeholders.

2. To evaluate how stakeholder relationships affect specific drivers of corporate value.
3. To understand company motivation to take action on sustainability concerns and to evaluate company efforts to integrate sustainability into corporate policy, strategy and practice.

4. To explore best practices for public reporting and engagement with shareholders.

**Cases:**

(a) Coca-Cola in Colombia (C)  (assignment will be distributed in class)

**Required Readings:**

*(May be skimmed for the main idea)*


*Become familiar with these websites:*

Global Reporting Initiative Website [www.globalreporting.org](http://www.globalreporting.org)

CDP Website [www.cdp.net](http://www.cdp.net)

Social Accounting Standards Board [www.sasb.org](http://www.sasb.org)

The International Integrated Reporting Council  [www.theiirc.org](http://www.theiirc.org)

**WEEK 4: STUDENT DEBATE; ESG INTEGRATION**

Student groups will hold debates on the shareholder resolutions they selected in Week 3. The class will vote on whether to support each shareholder resolution.

We will also complete the lesson on Corporate Social Responsibility, and discuss a case regarding the sustainability strategy and reporting of a particular company. See week 3 for more details about the objectives of this lesson.

**Case:**

Coca-Cola (D)

Greening Goliath: Developing a Shareholder Engagement Strategy for Emerson Electric

**Required Readings:**

“How to Read A CSR Report,” Boston College Center for Corporate Citizenship, 2010

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

In weeks 5 and 6, we will apply the skills learned in the course to specific global sustainability issues of most interest to investors. The classes will consist of a combination of lectures on the specific issues and cases relevant to shareholder engagement on these issues. Week 5 focuses on climate change.

What is the economic relevance of climate change? What is the corporate role in exacerbating or mitigating climate change? Why should investors care?

Class content will be drawn from the scientific consensus about this issue as compiled in the recent report of the Intergovernmental Panel on Climate change. Following this discussion, the class will discuss the case of the Stanford University decision to divest of coal.

In the second half of the class, we will hear from guest speaker Dan Hanson, a portfolio manager with Jarislowksi Fraser

**Learning Objectives (For weeks 5&6):**

1. To identify and explore broad global sustainability trends as they are relevant for companies and investors.

2. To determine how shareholders select strategies for addressing these trends and determine which companies to target for engagement.

3. To evaluate company responses to these global trends.

4. To understand the barriers that might exist to achieving an agreement and how might these barriers be overcome.

**Case:**

Stanford Dumps Coal

**Readings:**

*(May be skimmed for the main idea)*

“World’s Carbon Budget to be Spent in Three Decades.” Kelly Levin, World Resources Institute, September 2013

“Unburnable Carbon 2013: Wasted Capital and Stranded Assets” The Carbon Tracker Initiative From Exxon Mobil: Energy Outlook to 2040

World Bank, Turn Down the Heat, Executive Summary (focus in particular on the last section, page 8)


The Paris Climate Agreement, National Resources Defense Council

WEEK 6: CURRENT ISSUES – Social: Labor and Human Rights

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, time permitting, we will have an informal discussion on the topic: “What’s next for corporate sustainability?”

Learning objectives are the same for class 5

Case:

Urban Outfitters: Shareholder Advocacy and the Hipster Hyper-capitalist

Readings:

(May be skimmed for the main idea)

Short, Jodi L. and Toffel, Michael W. and Hugill, Andrea, Monitoring Global Supply Chains (hard copy distributed in class)

Testimony by Kalpona Akter Executive Director, Bangladesh Center for Worker Solidarity
(BCWS) Senate Foreign Relations Committee, “Prospects for Democratic Reconciliation and Improving Workers’ Rights in Bangladesh” February 11, 2014 (pages 46-51)

H&M Conscious Actions, Sustainability Report 2014 pps 30-51

“Supply chain audits—only as strong as the weakest link,” Simon Garbett, Global Supply Chain Law Blog

“Shrimp Sold by Global Supermarkets is peeled by slave laborers in Thailand,” Margie Mason, etal, the Guardian

“Forced Labor In The Production Of Electronic Goods In Malaysia: A Comprehensive Study of Scope and Characteristics (Executive Summary),” Verite

“Creating Sustainable Apparel Value Chains: A Primer on Industry Transformation,” Dr. Maximilian Martin, Impact Economy (Pages 3-15)