SciencesPo

SUSTAINABLE BUSINESSES AND MORAL MARKETS

Professor: Michele FIORETTI
University year 2022/2023: Common Academic Curriculum – Autumn semester (IFCO 2665)

COURSE DESCRIPTION

The "Sustainable Businesses and Moral Markets" course examines the way businesses, investors, governments, and other stakeholders interact to have a positive impact (or avoid negative impacts) in their societies. The course analyzes the incentives that each of these agents responds to in the creation of social goods by investigating whether the private pursuit of financial returns is consistent with the public interest.

The course is structured around three main modules:

1. The first module introduces the main market failures and the tensions that arise between different stakeholders. There are two main conceptual themes:

    *   The origin of market failures (e.g., externalities, imperfect information, public goods, and market power) and their implications for market outcomes. Here, we will discuss potential reasons why legislators may not be in the right position to fix these problems.

    *   Despite efficient, well-functioning markets may produce unfair or inequitable outcomes. Examples include the role of patents and copyrights on the ability of individuals to access cheap healthcare. In each case, we will investigate the incentive structure faced by firms and legislators.

2. The second module explores the adoption of sustainable business practices, discusses challenges and strategic opportunities for (for-profit and non-profit) organizations, including both start-ups and established corporations. Special attention will be dedicated to the creation of innovative products, services, and business models that help address vital social challenges (e.g., biodiversity loss, global health, discrimination, poverty, etc.).

3. The third module explores recent developments in moral markets and technology. First, we will focus on the nascent role of impact investing and shareholder activism and discuss whether shareholders' voice or shareholders' threat to sell their shares are the best tools to affect corporate decisions. Second, we will examine the questions that of ethics and social responsibility create for artificial intelligence.

The course makes extensive usage of business case studies drawn from the Harvard Business School database. The case studies are a fundamental innovative pedagogical tool because they solve a double purpose. First, they show that the theoretical concepts introduced in each lecture illustrate concrete problems faced by modern businesses and legislators. Second, they form the bases of in-class discussions. To help these discussions, group of students should introduce the weekly case study in each lecture. An online spreadsheet will be available on Moodle to allow students to self-select into a specific case study. Students are expected to work in group to produce a 15-minute PowerPoint-style presentation to introduce the weekly case study. Students in a presenting group will gain up to 1/20 points on their final grade.

The "Sustainable Business and Moral Markets" course is ideal for any student wishing to learn the economic foundation of sustainable business, the tradeoffs that sustainability creates within a firm and their implications for firm competition and market outcomes, and how managers can produce value from pursuing social impact. By the end of the semester, students

- will be able to evaluate potential conflicts between corporate and societal interest,

- assess why for-profit and non-profit organizations engage in socially responsible behaviors and why they develop innovative solutions to mitigate market failures instead of governments,

- identify issues in a firm's social responsibility stance and recommend potential solutions.

Schedule of topics

Module 1

1. **Week 1**: *Course introduction*

   - Explain different types of market failures and their impact on the natural and social environment

   - Appraise the ways in which corporations fail to manage issues where the pursuit of private goals is deemed inconsistent with the public interest

2. **Week 2**: *Lack of effective government regulation, industry self-regulation, and the implication for the economy and the society*

   - Appraise the need for public policy, and discuss potential reasons as to why governments may fail to take appropriate actions

   - Appraise the need and challenges for the private sector to take actions and self-regulate in order to mitigate these market failures and esure more sustainable outcomes

- Reading: "[Is Pollution Value-Maximizing? The DuPont Case](#)," Shapira & Zingales, 2017 (open source)

- Optional readings: "[Tragedy of the Commons](#)," Ostrom, 2008; "[Shareholder activism and firms' voluntary disclosure of climate change risks](#)," Flammer, Toffel, and Viswanathan, 2021

3. **Week 3**: *Tensions between corporations and society despite well-functioning markets (part 1)*

   - Examine the reasons why corporate and societal objectives may or may not coincide, and the issues where conflicts tend to arise despite well-functioning markets.

   - In-class case study: [Hitting the Wall: Nike and International Labour Practices](#) (HBS paywall)

4. **Week 4**: *Tensions between corporations and society despite well-functioning markets (part 2)*

   - Protection of intellectual property vs. protection of public health

   - In-class case study: [Life, Death, and Property Rights: the Pharmaceutical Industry Faces AIDS in Africa](#) (HBS paywall)

   - Optional reading: "[Performance Pay in Insurance Markets: Evidence from Medicare](#)," Fioretti and Wang, 2021. Non-technical summary available at [VoxEU column](#) (open source)

Module 2

   - Objectives for Module 2:

     a. Assess opportunities, challenges, and limitations of (for-profit and non-profit) organizations to mitigate market failures and have a positive social impact while growing and sustaining their operations over time

     b. Discuss the role of time horizons, stakeholder orientation, alignment of incentives, companies' portfolio of non-market strategies, and non-profit/for-profit partnerships in creating innovative and sustainable business solutions

5. **Week 5**: *Social impact (part 1)*

   - The "E" of ESG: environmental sustainability

   - In-class case study: [Starbucks and Conservation International](#) (HBS paywall)

   - Optional reading: [Chapter 3](#) of Jimenez and Pulos, 2016 (open source)

6. **Week 6**: *Social impact (part 2)*

- The "S" of ESG: providing access to healthcare

- In-class case study: [Novartis: Building a Sustainable Business at the Bottom of the Pyramid](#) (HBS paywall)

- Optional reading: [Is the Bottom of the Pyramid Really for You?](#) (open source)

7. **Week 7**: *Social Impact (part 3)*

- The "G" of ESG: Economic Empowerment

- In-class case studies: [Zingerman's Community of Businesses: A Recipe for Building a Positive Business](#) (HBS paywall)

Module 3

8. **Week 8**: *Measuring ESG, reporting, standardization, and ESG ratings*

- Explain challenges and importance of measuring social impact, the voluntary disclosure of non-financial information, and (the lack of) standardization.

- Discuss recent trends in public policy on mandatory disclosure requirements

- In-class case study: [Danone: Adopting Integrated Reporting or Not? (A)](#) (HBS paywall)

9. **Week 9**: *Economic growth and the green transition*

- Discuss the rise in sustainable finance, lack of public governance, and concerns of greenwashing

- Discuss the financial instruments for a transition to a green economy

- Reading: [Green Bonds: Effectiveness and Implications for Public Policy](#) (open source)

10. **Week 10:** *Active and passive ESG investing strategies*

- Describe shareholders' increasing social and environmental preferences, issues of corporate short-termism, and financial returns of ESG investing.

- Describe the role of the UN PRI (Principles for Responsible Investment)

- Discuss recent industry initiatives and public policy debates on sustainable finance

- Reading: [BlackRock- Linking Purpose to Profit](#) (HBS paywall)

- Optional reading: "[The Voice: The Shareholders' Motives Behind Corporate Donations](#)," Fioretti et al., 2022 (open source)

11. **Week 11**: *The moral conduct of Artificial Intelligence (AI)*

   - Introduce AI, its ethical challenges and the AI code of ethics

   - Optional readings: AI Code of Ethics; Ethics of Artificial Intelligence and Robotics; "The Social Dilemma of Autonomous Vehicles", Bonnefon et al., 2016; "The Moral Machine Experiment," Awad et al., 2018 (all open source)

12. **Week 12**: *Recap and Q&A*

Course assessments

1. *40% of the grade: group project, due on Nov. 23rd by 23:59.* Students will form teams of equal size (approx. 3-4 students per team). The team will adopt the role of a consulting team (or an investigative journalist). It will develop a briefing about a specific (for-profit or non-profit) organization's sustainability performance, evaluate plausible options on how it can improve its social impact (w.r.t. society and/or the natural environment) and their implications for both the organization and its stakeholders, and provide key recommendations on how the organization can improve its social impact moving forward. Students are required to choose one specific organization of interest and one sustainability issue connected to topics that we discuss in the course. The essay should not exceed 1,600 words. Students are expected to show a preliminary draft by the date of the Teaching Assistant lecture in week 5.

2. *60% of the grade: take-home exam.* Students will solve a case study. Students should evaluate the case using the material surveyed during the semester and provide new data and analytics to support or contradict the claim. The exam takes the form of an open essay, which should not exceed 800 words.

3. *Bonus point.* While all students are expected to read the case study before each lecture, I will give a bonus point (up to 1/20 points) for the students who offer to introduce the weekly case study to the classroom. I will circulate the list of case studies at the beginning of the semester and students will be free to choose which case study to present. Presentations by groups are encouraged. A student can present only one case study maximum.

Bibliography

There is no required textbook. As an optional background reading, I recommend the following books:

   - "Good Corporation, Bad Corporation: Corporate Social Responsibility in the Global Economy", by Guillermo C. Jimenez and Elizabeth Pulos, 2016 (open source)

- "Grow the Pie: How Great Companies Deliver Both purpose and Profit" by Alex Edmans
- "21st Century Investing: Redirecting Financial Strategies to Drive Systems Change" by William Burckart and Steve Lydenberg

The required HBS case studies are listed in the "Schedule of Topics" section.