

ISEN 405 – Corporate Sustainability & Value Creation

Winter 2020

Mon & Thu, 10:30–12:00, Tech L440

<https://canvas.northwestern.edu/courses/107303>

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Office Hours: Thursdays, 12-1pm or by appointment, Tech L440 or KGH5125 (please request a slot)

Course Overview

For a long time, businesses were seen as the problem, not the solution, when it comes to environmental degradation and social inequities. For example, traditional environmentalism is skeptical of growth and sees for-profit enterprises as antagonistic to the preservation and equitable use of natural resources. Conversely, orthodox economic theory tends to assign the responsibility for social and environmental welfare to governments and limit the responsibility of business to maximizing profits within legal constraints. No longer so. The current wave of corporate sustainability sees entrepreneurship and corporate innovation as a (often *the*) solution to issues like climate change, gender and racial equity, pollution prevention, social service delivery and economic development. Proponents of this view claim that to “meet the needs of the present without compromising the ability of future generations to meet their own needs” (the Brundtland Commission definition of sustainability), we should rely on private sector solutions to balance the triple bottom line of human development: economic prosperity, environmental quality, and social equity. Is this a new rhetoric or a new reality? Does the so-called win-win-win scenario between turning profits and contributing to global sustainability really exist? More importantly perhaps, *how* can a company or a new venture identify and realize sustainable business practices and strategies?

This course examines these questions from the perspective of a for-profit company or entrepreneur. You do not need to be an environmentalist to take this course, nor a free market capitalist or entrepreneur. Challenges of sustainability, in its many forms, are simply a reality of the present global business environment, like it or not. Examples range from broad transitions in the energy and mobility sectors to changing consumer tastes and political activism around food and consumer goods. The course is not designed to make you proficient in environmental law, green tech investing, sustainable development, or public policy. It focuses instead on practices and frameworks for developing sustainable businesses: understanding the drivers for corporate sustainability, pathways for creating public value while appropriating private value, and developing viable strategies for competitive markets. But we need to keep it honest, see through public rhetoric, and assess the environmental and social impacts of business strategies for what they are. The starting premise is that most current business practices are NOT sustainable, or at the least do not contribute as much as they could toward global sustainability. Developing truly sustainable businesses difficult; it entails trade-offs, stretches our understandings and requires complex long term changes. It is not an exact science but can be evidence driven. Sustainable value creation therefore requires tools and thinking that go beyond conventional approaches to business management, that instead integrate business and sustainability.

Learning Objectives

By the end of the course, students will:

- Understand the fundamental functioning, stakeholders and governance of corporations as they relate to sustainability and economic value creation
- Understand the main drivers of corporate sustainability (market and non-market)
- Understand principles, strategies and business models that companies can use to innovate, create value, and build competitive advantage while helping people and planet
- Be able to think critically and systemically about businesses, strategic decisions, and their environmental and societal consequences
- Be familiar with basic tools and standards in measuring and reporting corporate sustainability, and how to use them for decision-making
- Have developed their skills to evaluate business contexts in an integrated way, communicate persuasively about complex and contentious issues, and to determine the most effective implementation for strategies aimed at improving sustainability
- Be conversant in major corporate sustainability issues, such as SDGs, ESG, CSR, etc.
- Understand trends and future scenarios in key areas, such as investing, technology and resources

Roadmap and Teaching Approach

The course is broken roughly into three parts. The first sets up an understanding of how for-profit companies create value for their immediate stakeholders, and the possible tensions that arise from that pursuit with advancing sustainability at the societal and global level. The second part addresses drivers for sustainability in companies' environments, and how they translate into changes in how companies create value for their stakeholders: government regulation, natural resource scarcity, consumer and investor demands, competition, and activist and civil society influences. The last portion of the course looks at operational and strategic responses to this changed environment: a) operational strategies, such as environmental risk management, eco-efficiency, industrial symbiosis; b) innovation strategies, such as technology development, new venture creation and business model innovation; and c) institutional strategies, such as complex corporate transformations and disruptions to entire industries. The teaching format combines short lectures, simulation exercises, analyses and discussion of cases and scenarios, and presentations of live cases by guest speakers.

The main focus of the class is on the practice of corporate sustainability. While we will touch on major theoretical debates, and evaluate some analytic methods from economics and engineering, we will not get into deep technical analysis. We will instead focus on practical, integrated decision-making by practicing managers. A basic understanding of management, financial markets, social and natural resource systems, and economic and psychological models of human behavior is useful, but not necessary for the class.

All readings and other will be distributed by the instructor via Canvas. There is no course packet or required text book to buy. Because students are not expected to have deep knowledge of sustainability topics, it is important that you complete readings prior to class and reflect on them based on the questions included on Canvas.

As part of the class, we will have guest speakers from business professionals and stakeholders that work in the sustainability field, such as sustainability reporting experts, finance professionals, and business

executives. [note that for this pilot version of the class, the extent of live guest speakers vs. other case analyses depends to some extent on class size].

Grading Components

The assignments for this course serve not only to assess how well you have understood and can apply the course content. They are integral components of the learning objectives. As a consequence, they are less about re-playing frameworks and analyses covered in class and in the readings, and more about challenging you to think creatively, identify and use qualitative and quantitative information, and draw reasoned conclusions.

Grade Components:

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| • Position Paper (20%) | Jan 17 (Fri), 6pm, via Canvas |
| • Quiz (25%) | Feb 17 (Mon), in class |
| • Final Team Presentation (30%) | Mar 9 (Mon), in class and via Canvas |
| • Class Participation (25%) | continuous |

Grades will be assigned based on all the work you have completed during the quarter following the traditional practice of A=90-100, B=80-89, C=70-79, D=60-69, F<60. Final grades for the course are simply the sum of the components.

Position Paper (individual):

A up to three page (single spaced) position paper is due on Friday, January 17. The paper should answer the question, “Can for profit business management be completely compatible with sustainability?” Your answer should draw on the ideas and insights of the first two weeks of the course. It should include the case for and against, and weight the arguments and evidence before coming to a conclusion. Good answers also identify conditions and contingencies for answering one way or another.

Quiz (individual):

A closed book quiz will be administered during class time on Monday, February 17. The relevant material includes everything covered in the class to that day. The format is a combination of answers to multiple choice and open ended questions, and an analysis of mini case scenarios.

Team Project and Presentation (group):

This team project consists of writing a report about sustainability in an industry of your choosing. Ideally, your team will pick an industry in which you hope to be employed or have some expertise in. The paper should be well researched and all sources must be documented. The assignment has three components: a) Identify key drivers of environmental strategy in this industry and how they affect the competitive dynamics of the industry. Be specific about the geographic and temporal scope of your analysis. b) Provide a (very) brief assessment of the ‘state of the art’ in sustainability strategy in the industry – who are leaders and laggards and what do they do. c) Identify a business strategy for either a start-up or one of the incumbent firms in the industry that promise to combine high economic and environmental value creation. Explain the reasoning behind your analysis. The white paper can be no longer than 12 pages double spaced, 11pt font, including figures and tables. The report is due on March 9. You are expected to present a summary of your findings to the class (not graded).

Class participation (individual):

It is difficult to get an A, and for some even a B in this class without consistent and high quality class participation. A large part of this grade is your participation in discussions. Attendance alone will not get you far. You are expected to have read all the materials and understand key concepts and facts, and their

implications before you arrive in class. Asking good questions is very valuable if they are evidently based on reading the assigned articles and the cases. Obviously, absence is not a contribution. I understand your time pressures and also that sometimes events just interfere, but regular attendance is a must. Absences without good reason hurt your grade. If you must miss a class, please let me know beforehand by e-mail, otherwise your participation grade will receive an automatic deduction of 1/10th of the total score.

Late Assignment and Grade Review Policies:

- 10% will be deducted from late assignments turned in within 24 hours of the deadline. 50% will be deducted from late assignments that are more than 24 hours but less than 7 days late. No credit will be given for work turned in more than 7 days after the deadline without a written exception granted by the instructor prior to the original deadline.
- All questions and appeals regarding grades must be presented in writing within one week after the grade has been received. Your request must submit an explanation via email of why specifically you think I should reconsider your grade. If I do receive a plausible written explanation, I will ask a knowledgeable third party to re-grade the assignment. Your grade may go up or down as a result of the re-grade.

Copyright

I will make available all lecture and case material via Canvas. The handouts distributed for this class are copyrighted material as are pdf versions of the lecture slides. These copies are for your personal use. You cannot share them with others in your company or with faculty at other universities without my permission.

Session Plan

Session	Topic	Details
1.1. Mon, Jan 6	Introduction	History of sustainability and business Value creation equation SDG vs ESG perspectives Systems thinking principles
1.2. Thu, Jan 9	Corporate value creation: The corporation, framework	Stakeholders Corporate governance and control Drivers of corporate sustainability Value chains Time frames
2.1. Mon, Jan 13	Economic value and sustainability: Fishbanks Simulation	Natural resources and ecosystem services Private and public goods Externalities and shared value CSR vs. sustainable value
2.2. Thu, Jan 16	- no class -	Position paper due on Friday
3.1. Mon, Jan 20	- no class -	MLK Day
3.2. Thu, Jan 23	Impact Assessment: Product	Systems thinking II Life cycle assessment Case: Diapers SDG assessment exercise
4.1. Mon, Jan 27	Impact Assessment: Corporate	Reporting standards: GRI, ESG, TCFD, SDG Materiality Negative and positive impacts Integrated reporting Case: Puma / Kering
4.2. Thu, Jan 30	Sustainability as Corporate Risk and Opportunity	Translating drivers into decisions Risk mitigation and resilience Opportunity exploration and options Barriers to risk perceptions and opportunity recognition Case: Nestle water risk
5.1. Mon, Feb 3	Legal Principles and Regimes	Regimes: Liability, precautionary, governance Case: B-corps governance Types of regulation (inc., incentives) International regulatory environment Regulatory analysis and uncertainty Case: Plastics
5.2. Thu Feb 6	Technological and Regulatory Drivers	Technology and industry transformation Case/speaker: e-mobility

6.1. Mon, Feb 10	Market Drivers: Investors	Institutional investors: ESG and Materiality Activist investors Venture capital: Impact investing Mixed finance models Case/speaker: ESG investing
6.2. Thu, Feb 13	Market Drivers: Customers	Green consumerism Eco labels and branding Greenwashing Monetizing sustainability Case/speaker: Palm oil
7.1. Mon, Feb 17	Mid Term Quiz (in class)	
7.2. Thu, Feb 20	Operational Strategies	Eco-efficiency Environmental and social risk Organization design – who should do sustainability and incentive systems? Case/speaker: Base of the pyramid
8.1. Mon, Feb 24	Global Supply Chain Strategies	Global value chains Case: H&M
8.2. Thu, Feb 27	Business Models: Circular Economy Models	Industrial symbiosis, cradle to cradle systems Case: Terracycle
9.1. Mon, Mar 2	Sustainability journeys toward integration and leadership	Business change and moving targets Case: Patagonia
9.2. Thu, Mar 5	Industry innovation and disruption	Early movers and new entrants Wind and solar industries Case: Tesla
10.1. Mon, Mar 9	Presentations	
10.2. Thu, Mar 12	Presentations Corporate sustainability revisited	Can corporate sustainability be achieved without a changed capitalism?