

: FINANCE

INTRODUCTION:

According to Wikipedia, Finance “studies and addresses the ways in which individuals, businesses and organizations raise, allocate and use monetary resources over time.” To many people, finance *is* business. Many of the brightest stars in the business world – from Wall Street bankers to hedge fund managers to corporate CEOs – made their names (and fortunes) in the realm of finance.

And finance is seductive. It is numbers-intensive, based on fundamental mathematic principles, and seems values-neutral, almost scientific. Yet finance involves substantial moral judgments about the world in which we live. And financial tools can help to solve deep social and environmental problems.

This paper sought innovation in the teaching of Finance, with the following questions in mind:

- How does the penetration of social and environmental issues into the Finance discipline compare to other disciplines?
- When such issues are present, what forms do they take?
- What teaching resources are available to faculty who want to broaden the scope of their classes?
- What are the key social and environmental issues as regards Finance?

A FACULTY POINT OF VIEW:

[Ray Fisman](#) is a Harvard-trained economist who teaches at Columbia University. Professor Fisman’s recent publications range from *Tax Rates and Tax Evasion* to *Gender Differences in Mate Selection: Evidence from a Speed Dating Experiment*. He spoke to the Aspen Institute about teaching Finance:

- On the focus of his research: “Corruption is my bread and butter.”
- On the content of current Finance education: “I warn my students on the first day of class ‘we will gloss over both the questions of what a firm *is*, and what a firm is *for*.”
- On who really owns a firm: “Corporate Governance fits almost entirely within Corporate Finance.” and “It’s not transparently clear that the surplus [profit created by a firm] ought to go to the providers of capital but at the same time it’s not at all clear to me that the shareholder model is any less desirable than the stakeholder model. [One need only look to] ‘big labor’ and how unions [a stakeholder group] can extract value at society’s expense.”
- On the importance of consistency: “It always struck me as funny that you could say [to students] ‘behave honorably toward the firm, but lie, cheat, and steal from everyone else to serve the firm.’”
- On improving MBA education: “What is needed is a faculty that is thoughtful and sympathetic to these issues. It’s not that I have these carefully staged discussions [in my classes], but I spend an awful lot of time thinking about these issues and so can’t help talking about them.”

THE BOTTOM LINE:

- Schools report that social and environmental issues are penetrating Finance at similar rates to other core disciplines (Marketing, Accounting, Strategy, etc.)
- Currently, teaching on such issues in Finance courses largely revolves around three topics:
 - a) A narrow construction of ethical behavior (e.g. “Thou shall not steal.”)
 - b) Using financial tools for “good” (e.g. Raising money for an NGO or trading pollution credits)
 - c) Conducting business in poor countries, so as to contribute to their economic development.
- Schools very rarely report questioning the fundamental assumptions of corporate finance, such as the validity of the Efficient Market Hypothesis or the Capital Asset Pricing Model and schools rarely offer alternatives to the erroneous notion that stockholders are the legal owners of a firm.

A Closer Look at Business Education

NOTABLE COURSEWORK*:

- **University of Colorado at Boulder**, [Applied Financial Management](#) (Elective Course)
“Cases include *Coleco*, where a company in financial distress must juggle the interests of shareholders, lenders, employees, and others while trying to avoid bankruptcy.”
- **Columbia University**, [Corporate Finance](#) (Required Course)
“Should managers maximize shareholder value? Should it be the sole or primary objective? Is this equivalent to maximizing the current stock price? What if this involves manipulating the stock price? Is there a short-run versus long-run distinction? Inside a corporation, ‘making the world better,’ is not an idealistic notion but rather something to be achieved by maximizing shareholder value.”
- **Erasmus University Rotterdam**, [Financial Management](#) (Required Course)
“The core finance program devotes considerable attention to the debate between the stakeholder and shareholders conceptions of the firm. The extreme diversity within the class is used as a platform for in-depth discussion.”
- **ESADE Business School**, [Long-Term Financial Strategy](#) (Elective Course)
“The course underlines the importance, when weighing up possible strategic alliances, of considering the social and environmental practices of potential partners, and it defends policies of austerity in the distribution of dividends as a means of ensuring the survival of the profits that the company provides to all its stakeholders.”
- **The University of Michigan**, [Finance and the Sustainable Enterprise](#) (Elective Course)
“This course deals with unique financial valuation and management issues faced by sustainable business. We will study the efficacy of traditional and modern financial methods in enabling (a) corporations to develop sustainable strategies, and (b) nonprofit enterprises to deal with complex issues related to sustainability of companies and economies.”
- **The University of Nottingham**, [Corporate Finance](#) (Elective Course)
“Unlike many traditional MBA corporate finance courses, this module makes explicit the assumptions of shareholder value maximization that underlie the Anglo-American model of corporate finance and sets these within the context of alternative (e.g. stakeholder-oriented) models.”
- **Stanford University**, [Corporate Finance](#) (Elective Course)
“This course focuses on the various constituencies that have a legitimate claim on corporate success (e.g., shareholders, lenders, customers, employees, the community, society) and the way the trade-offs can and should be managed in an ethical way.”



NOTABLE CASE STUDIES / TEACHING MATERIALS**:

Cases referenced are meant to represent the diversity of Finance related teaching materials. All are available for free download to registered faculty members of CasePlace.org.

- [Adnet](#) (Harvard Business School Publishing)
Places students in the position of a venture capitalist who must confront an ethical dilemma
- [Aligning Corporate Performance with Community Economic Development to Achieve Win-Win Impacts](#) (The Center for Corporate Citizenship at Boston College)
Reviews a new structure at JP Morgan Chase that allows for alternative financing for affordable housing, small business, and community-based supermarket development
- [Ameritrade Holding Corporation](#) (Harvard Business School Publishing)
Some of the senior managers at Ameritrade, an Internet brokerage firm, are selling their holdings in the firm. Why are the managers selling, how will it affect shareholders, and what should the CEO do?
- [Anglo American \(A\)](#) (Stanford University)
How to confront the ravages that extremely high HIV/AIDS rates were taking on Anglo's workforce and overall productivity
- [Baybank Boston](#) (Harvard Business School Publishing)
Presents students with the challenge of responding constructively to social criticism regarding racist lending practices

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- [Circon](#) (A, B, C) (Harvard Business School Publishing)
Issues of loyalty to a friend, executive incentives, executive entrenchment, and duty to shareholders collide during a hostile takeover bid
- [IPODERAC](#) (Harvard Business School Publishing)
Examines a nonprofit organization's efforts to achieve financial sustainability, particularly through earned income activities on its farm
- [Washington Mutual and the Tribal Lending Program](#) (Center for Corporate Citizenship at Boston College)
The bank developed ways of surmounting tribal sovereignty issues, unusual title problems, and education issues to allow under-served Native Americans to enter the housing market.
- [White Nights and Polar Lights: Investing in the Russian Oil Industry](#) (Harvard Business School Publishing)
Investing in Russia entailed tremendous risks--commercial, legal, and political. The case examines how three companies (Phibro, Mobil, and Conoco) have evaluated the risks of Russia and formulated a strategy for investment.
- [The International Investor: Islamic Finance and the Equate Project](#) (Harvard Business School Publishing)
Explores the complications of integrating Islamic and conventional Western financial instruments in a single transaction as well as some of the possible solutions.
- [The Chad-Cameroon Petroleum Development and Pipeline Project \(A\) and \(B\)](#) (Harvard Business School Publishing)
The case illustrates the difference between project and corporate finance and shows that risk sharing and risk mitigation are motivations for using project finance

ONGOING QUESTIONS:

In continuing to improve Finance education at the MBA level, several questions remain:

- What topics, questions, and themes, specifically, ought to be included in socially responsible finance education?
- What are the best ways to encourage existing Finance faculty to add new topics and themes to their existing programs?
- How can faculty in other disciplines, with more experience in the social and environmental impacts of business, work with their Finance colleagues?

RESOURCES:

[BeyondGreyPinstripes.org](#) – World's largest MBA database, including details on thousands of courses and activities at 128 schools on six continents. 268 syllabi available for free download.

[CasePlace.org](#) – Free library of business school case studies with a social and environmental focus.

CasePlace.org has 91 cases in the discipline of Finance and 5 separate [Featured Collections](#) (teaching modules) on Corporate Governance, which include cases, background readings, and teaching notes.

*Notable Coursework is drawn from [Beyond Grey Pinstripes](#), a research survey conducted biennially by the Aspen Institute and the World Resources Institute. For a more comprehensive review, visit the survey database online.

**Notable Case Studies are drawn exclusively from [CasePlace.org](#).

A Closer Look is an occasional series of briefing papers on topical issues in MBA education, based on the research and programs of the Aspen Institute. The [Aspen Institute Business and Society Program](#) works with senior corporate executives and MBA educators to prepare business leaders who will effectively manage the financial, social, and environmental impacts of the private sector.

→ [Contact Rich.Leimsider@aspeninstitute.org](mailto:Rich.Leimsider@aspeninstitute.org) to order reprints or to offer feedback.