



**Seminar #4797
“Corporate Social Responsibility and Financial Markets”**

Fall Term 2014

Revised version of August 30, 2014

Short Description

Financial markets have become more powerful over the last 30 years. They have transformed the priorities of firms and how the economy operates. Researchers call this trend “financialization.” This trend also matters for Corporate Social Responsibility (CSR). CSR means that firms voluntarily take into account social and environmental considerations in their strategic decisions and business practices. This seminar explores how financial markets can both strengthen and weaken CSR activities of firms. On the one hand, financial markets often weaken CSR activities by detracting firms’ attention from employees, communities and other non-shareholding stakeholders. On the other hand, the recent rise of Socially Responsible Investing points out that financial markets can also strengthen CSR activities of firms.

Lecturer

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Administrative Details

Dates:

- September 18th (Thursday), 2014, 16h15-19h30.
- October 2nd (Thursday), 2014, 16h15-19h30.
- October 9th (Thursday), 2014, 16h15-19h30.
- October 23rd (Thursday), 2014, 16h15-19h30.
- November 6th (Thursday), 2014, 16h15-19h30.
- November 20th (Thursday), 2014, 16h15-19h30.
- December 4th (Thursday), 2014, 16h15-19h30.

Location: Seminarraum UNK-E-2, Universitätsstrasse 84, 8006 Zurich
(Tram-Station Winkelriedstrasse, Line 9 & 10).

A maximum of 15 Master students will be admitted. To participate, please send an e-mail to emilio.marti@uzh.ch by August 29, 2014. The mail should explain why you want to participate in the seminar (300 words maximum) and include your CV and a list of the courses you have attended so far. Students will be informed by September 1, 2014, about



whether they are admitted. Late applications will only be considered if vacant places are available after August 29, 2014.

For earning ECTS credit points students have to make a presentation and further develop the topic of their presentation in a seminar paper. The main text of the seminar paper should be 15 pages long (based on a 12 point font size, 2.5 cm margins on all sides, and double line spacing). Presentation and seminar paper each counts 40% for the final grade. In addition, students' participation in class discussions counts 20% for the final grade.

For guidelines on how to write scientific papers, please refer to the download area on our homepage: <http://www.business.uzh.ch/professorships/as/themenliste.html>

The deadline for the module-booking of this course is October 10, 2014. The successful completion of the seminar gives 3 ECTS-Points, which can be credited to MA: BWL 5. The students will receive reading material by mail.

The deadline for handing in the seminar papers is December 31, 2014. Yet, we strongly advise participants to use the second half of the semester to finish the papers and hand them in before the other exams start.

All questions concerning the seminar can be directed to the lecturer: emilio.marti@uzh.ch

A Note on Plagiarism

Plagiarism is defined as the use of another person's ideas, knowledge, or language without appropriate crediting of the source. Plagiarism is theft of intellectual property, and therefore is a serious offense. It cannot be tolerated in academic work. Any evidence of plagiarism in a student paper will result in a failing grade for the course. It is also inappropriate to use very long quotes from an author even if the material is properly cited and enclosed in quotation marks. Such a practice raises the possibility that students do not really understand the material they are quoting. Ideas should be expressed in the students' own words except for the occasional use of quotations from other sources to highlight or support specific points. For further information see the *Harvard Guide for Using Sources* and its guidelines on avoiding plagiarism:

<http://isites.harvard.edu/icb/icb.do?keyword=k70847&tabgroupid=icb.tabgroup106849>

Overview over Sessions

All participants must read *one* paper per session. In addition, for each session, three students will read all the papers and prepare a presentation. Presentations should be about 40 minutes long. Students should give a brief overview over the main argumentation of the paper and then, more importantly, develop their own ideas based and the possible research questions that are outlined below. In class, we will discuss the paper and students' ideas and provide feedback that students can then use to further develop their ideas in their seminar paper.



Session 1 (September 18th, 16h15-19h30): Overview over Presentation Topics and Selection of Topics by Students

In the first session, I will give an introductory overview over the topic of the seminar. I say something about each of the following topics so that students can pick their presentation topics. For each paper, I will present some possible research questions (see below) that students should take into account when they develop their presentations and seminar papers.

In addition, I will give a short input about how to write a good seminar paper. We will examine the structure and content of a scientific paper and highlight the important aspects you need to consider when preparing your presentation and seminar paper.

Session 2 (October 2nd, 16h15-19h30): The broader societal implications of financial markets—The case of high-frequency trading

We analyze a recent development in financial markets: High-frequency trading. Existing research (e.g., MacKenzie 2011) looks at how this financial innovation influences the efficiency and stability of financial markets. In Session 2, we will engage in group work to discuss broader societal implications of high-frequency trading that go beyond the efficiency and stability of financial markets. In doing so, we will establish some of the key vocabulary that we will need in the following session.

All students should read:

- MacKenzie, D. 2011. How to Make Money in Microseconds, *London Review of Books*, 33: 16–18. www.lrb.co.uk/v33/n10/donald-mackenzie/how-to-make-money-in-microseconds

Session 3 (October 9th, 16h15-19h30): Introduction into CSR

Corporate Social Responsibility (CSR) has become a very active research field over the last 20 years. Garriga and Melé (2004) distinguish between four variants of SCR research: (1) instrumental theories; (2) political theories; (3) integrative theories; and (4) ethical theories. Scherer and Palazzo (2007) have revived variant (2) with their ideas about “political CSR.” In session 2, we review these different CSR theories, and discuss how they see the role of shareholders and financial markets. In addition, we discuss the framework of Aguilera and Jackson (2003).

All students should read:

- Garriga, E., & Melé, D. 2004. Corporate Social Responsibility theories: Mapping the territory. *Journal of Business Ethics*, 53(1-2): 51–71.



Topic 1 for student presentation: Variants of CSR research

- Garriga, E., & Melé, D. 2004. Corporate Social Responsibility theories: Mapping the territory. *Journal of Business Ethics*, 53(1-2): 51–71.

Possible research questions for the presentation and seminar paper:

- What role do shareholders play in each of the four CSR theories identified by Garriga and Melé (2004)?
- How does each CSR theory assess the idea popular in financial economics that financial markets know best how to allocate capital so as to enhance social welfare?
- How well can each of the four CSR theories integrate the fact that financial markets' influence on firms has increased over the last 30 years?

Topic 2 for student presentation: Political CSR

- Scherer, A. G., & Palazzo, G. 2007. Toward a political conception of corporate responsibility: Business and society seen from a Habermasian perspective. *Academy of Management Review*, 32(4): 1096–1120.

Possible research questions for the presentation and seminar paper:

- What does a deliberative approach to CSR imply for the role that shareholders should play?
- How do different types of shareholders (pension funds, activists, etc.) enhance or impede such deliberation?
- Can broad participation in financial markets help to democratize corporate governance?

Topic 3 for student presentation: Corporate governance

- Aguilera, R. V., & Jackson, G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review*, 28(3): 447–465.

Possible research questions for the presentation and seminar paper:

- Through what mechanisms do financial markets influence corporations?
- How does the increasing importance of financial markets transform corporate governance according to the framework of Aguilera and Jackson (2003)?
- How does the framework of Aguilera and Jackson (2003) clarify the antecedents of corporate social responsibility?

Session 4 (October 23rd, 16h15-19h30): Introduction into Financialization

Financial markets have become more important for how the economy functions since the 1970s. Researchers describe this trend as the financialization of the economy or as the rise of a “finance-centered economy” (Davis 2009, 27). Davis (2009) gives an overview over this trend. In addition, Krippner (2005) uses macroeconomic data to document how financialization changed corporate activities and Tomaskovic-Devey and Lin (2011) search for political explanations for these sectorial shifts.



All students should read:

- Davis, G. F. 2009. The rise and fall of finance and the end of the society of organizations. *Academy of Management Perspectives*, 23(3): 27–44.

Topic 4 for student presentation: Overall dynamics

- Davis, G. F. 2009. The rise and fall of finance and the end of the society of organizations. *Academy of Management Perspectives*, 23(3): 27–44.

Possible research questions for the presentation and seminar paper:

- What were the implicit CSR practices of big US corporations in the 1960s and 1970s, and how do these practices differ from today's CSR practices?
- How has pressure from financial markets transformed the relation between corporations and society?
- How has the idea of “creating shareholder value” changed over time, and what role does it continue to play today?

Topic 5 for student presentation: Changes in corporate activities

- Krippner, G. R. 2005. The financialization of the American economy. *Socio-Economic Review*, 3(2): 173–208.

Possible research questions for the presentation and seminar paper:

- How do changes in corporate activities (e.g., outsourcing) transform the CSR-related challenges that firms face?
- What does firms' increasing attention to financial markets imply for firms' CSR activities?
- To what degree do the interests of executives overlap with the interests of shareholders, and what does this imply for firms' CSR activities?

Topic 6 for student presentation: Political explanations for the sectorial shift

- Tomaskovic-Devey, D., & Lin, K.-H. 2011. Income dynamics, economic rents, and the financialization of the U.S. economy. *American Sociological Review*, 76(4): 538–559.

Possible research questions for the presentation and seminar paper:

- Which of the CSR theories identified by Garriga and Melé (2004) can best be reconciled with the rent theory proposed by Tomaskovic-Devey and Lin (2011)?
- What does rent theory imply for the relation between business and society?
- Has income inequality been an important topic in CSR research and CSR practice, and, if not, why?

Session 5 (November 6th, 16h15-19h30): How Financial Markets Influence Non-Financial Firms

Increasing pressure financial markets has forced non-financial firms to pay more attention to demands from financial markets. This shift has benefited shareholders and executives,



while non-executive employees saw stagnating wages. Lazonick and O'Sullivan (2000) describe this trend as a fundamental shift in corporate governance, in which non-financial firms do not anymore "retain and reinvest" corporate profits; rather, they "downsize [their activities] and distribute" profits to shareholders. The other two papers in this session look at this trend on the organizational level and the micro level. Jones and Nisbet (2011) analyze how financialization shapes CSR activities of four multinational firms. Ezzamel, Willmott and Worthington (2008) look at financialization processes at the micro level, by analyzing how new accounting measures reproduce the logic of financial markets within a non-financial firm.

All students should read:

- Lazonick, W., & O'Sullivan, M. 2000. Maximizing shareholder value: A new ideology for corporate governance. *Economy and Society*, 29(1): 13–35.

Topic 7 for student presentation: Shifts in corporate governance

- Lazonick, W., & O'Sullivan, M. 2000. Maximizing shareholder value: A new ideology for corporate governance. *Economy and Society*, 29(1): 13–35.

Possible research questions for the presentation and seminar paper:

- How does financialization influence the bargaining power of different external stakeholders (shareholders, NGOs, etc.)?
- How does financialization influence the bargaining power of different internal stakeholders (executive employees vs. non-executive employees)?
- Does Switzerland's "Minder Initiative" dovetail with the trend described by Lazonick and O'Sullivan (2000)?

Topic 8 for student presentation: CSR activities in a financialized economy

- Jones, B., & Nisbet, P. 2011. Shareholder value versus stakeholder values: CSR and financialization in global food firms. *Socio-Economic Review*, 9(2): 287–314.

Possible research questions for the presentation and seminar paper:

- Through what mechanisms can financial markets influence the CSR strategies of non-financial firms?
- How do CSR activities of firms that pay much attention to financial markets differ from the CSR activities of firms that pay little attention to financial markets?
- Are certain topics (e.g., job security) systematically neglected in CSR research and CSR practice, and, if so, why?

Topic 9 for student presentation: Reproducing the logic of financial markets within firms

- Ezzamel, M., Willmott, H., & Worthington, F. 2008. Manufacturing shareholder value: The role of accounting in organizational transformation. *Accounting, Organizations and Society*, 33(2–3): 107–140.

Possible research questions for the presentation and seminar paper:

- How does the logic of financial markets differ from the logic that prevails within many non-financial firms?



- Through what mechanisms can financial markets transform the logic that prevails within many non-financial firms?
- What does reproducing the logic of financial markets within non-financial firms imply for the CSR activities of these firms?

Session 6 (November 20th, 16h15-19h30): How Financial Firms Influence Top Incomes

Top incomes have risen substantially over the last 40 years in most countries of the world. Rising incomes in the financial sector have contributed substantially to rising top incomes. Godechot (2012) shows that in France, the income share of the top 0.1% rose from 1.2% in 1996 to 2.0% in 2007 and that finance wages account for 48% of this rise. Why have these wages risen so much? Godechot (2008) sets out to explore why finance employees have so much bargaining power. Célérier and Vallée (2014) illuminate a different aspect of that question: the enormous sums that investors pay for financial services, thereby fueling rising finance wages. Célérier and Vallée (2014) argue that the increased complexity of financial markets helps to explain why investors pay ever larger sums for financial services.

All students should read:

- Godechot, O. 2012. Is finance responsible for the rise in wage inequality in France? *Socio-Economic Review*, 10(3): 447–470.

Topic 10 for student presentation: How finance contributes to top incomes

- Godechot, O. 2012. Is finance responsible for the rise in wage inequality in France? *Socio-Economic Review*, 10(3): 447–470.

Possible research questions for the presentation and seminar paper:

- Does paying high fees for financial services (e.g., fees for active investing) pay out for most investors?
- If not, why do investors spend so much money for financial services?
- Have rising top incomes been an important topic in CSR research and CSR practice, and, if not, why?

Topic 11 for student presentation: Top incomes in the financial sector

- Godechot, O. 2008. “Hold-up” in finance: The conditions of possibility for high bonuses in the financial industry. *Revue française de sociologie*, 49(5): 95–123.

Possible research questions for the presentation and seminar paper:

- How does the explanation of Godechot (2008) differ from economic explanations?
- How does bargaining power influence profit distribution within financial firms?
- What determines the bargaining power of different stakeholders of financial firms (employees, owners, customers, etc.)?

Topic 12 for student presentation: Rising complexity in financial markets

- Célérier, C., & Vallée, B. 2014. What drives financial complexity? A look into the retail market for structured products, Working paper.



Possible research questions for the presentation and seminar paper:

- Can one explain rising complexity, which C el erier and Vall e (2014) explain with economic theory, at the field level by using insight from management theory?
- If so, what is the relation between rising complexity and the legitimacy of financial sector employees?
- What would CSR mean in such a context, and would such CSR practices be feasible?

Session 7 (December 4th, 16h15-19h30): Socially Responsible Investing

Along with financialization, Socially Responsible Investing (SRI) has become more important. SRI describes investment strategies that integrate environmental, social and governance (ESG) criteria into their investment decisions. Investors engage in SRI for a variety of different reasons: to reduce risks, to increase profits, to reduce environmental degradation, to pressure corporations to protect stop violating human rights, etc. de Colle and York (2009) offer a good introduction into the topic by presenting and problematizing the most widespread investment strategy within SRI: Negative screening. In addition, Slager, Gond and Moon (2012) look at the institutionalization of SRI, and Soederberg (2009) discussed whether SRI may ultimately reproduce and stabilize some of the most problematic aspects of a financialized economy.

All students should read:

- de Colle, S., & York, J. 2009. Why wine is not glue? The unresolved problem of negative screening in socially responsible investing. *Journal of Business Ethics*, 85(1): 83–95.

Topic 13 for student presentation: Different investment strategies within SRI

- de Colle, S., & York, J. 2009. Why wine is not glue? The unresolved problem of negative screening in socially responsible investing. *Journal of Business Ethics*, 85(1): 83–95.

Possible research questions for the presentation and seminar paper:

- What are the different motivations for SRI, and how do these different motivations relate to different investment strategies?
- What alternatives have been developed to the negative screening that de Colle and York (2009) criticize?
- What investment strategy will have the highest impact on firms' CSR activities?

Topic 14 for student presentation: Institutionalization of SRI

- Slager, R., Gond, J.-P., & Moon, J. 2012. Standardization as institutional work: The regulatory power of a responsible investment standard. *Organization Studies*, 33(5–6): 763–790.

Possible research questions for the presentation and seminar paper:



- What role does standardization play in financial markets?
- How do existing standards foster or impede SRI?
- What are the most important standardization projects in the field of SRI, and how could they reshape the SRI field?

Topic 15 for student presentation: The dark side of SRI

- Soederberg, S. 2009. The marketisation of social justice: The case of the Sudan divestment campaign. *New Political Economy*, 14(2): 211–229.

Possible research questions for the presentation and seminar paper:

- What is the relation between financialization and SRI?
- Does SRI have some internal conflicts, and, if so, which?
- What does it mean that “SRI does not question the wider ideological and policy frame” (Soederberg 2009, 220)?