

2021\_S02\_KBA\_B3\_FIN\_0901\_E\_L\_BOD IFC  
**ETHICAL FINANCE**

**2020-2021 Semester 2**

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<b>OFFICE HOURS</b>	By appointment
<b>CLASSROOM(S)</b>	See Campus Virtuel
<b>COURSE HOURS</b>	See timetable section

<b>COURSE DELIVERABLE</b>	<b>DUE DATE</b>	<b>WEIGHT ON FINAL GRADE</b>
Group work	To be determined	40%
Final exam	To be determined	60%

**Kedge Business School et ses professeurs vous encouragent à considérer vos Pro-Acts, vos missions entreprises et vos stages comme des occasions privilégiées pour l'application des réflexions, des théories, des concepts et des outils présentés durant ce cours**

# ETHICAL FINANCE AND SRI

## INTRODUCTION AND OBJECTIVES

### *Course Purpose & Objectives*

The ongoing economic, social and environmental crisis has revealed the need to redefine the function of finance. Academic finance bears significant responsibility in this process addressing the interaction between finance and society. As a response, many private actors have broadened their definition of 'ethics' in order to include environmental and social elements into their management and asset allocation practices.

The pedagogical objective of this class is to confront standard corporate finance assumptions against the specificities of ethical finance practices, and to propose relevant approaches for the successful implementation of social criteria in financial decisions.

Students following this course will develop an awareness of the developments and crisis of current financial system that paved the way for increasing social responsibility in financial practices; and master a set of specific techniques for the Environmental Social and Governance (ESG) rating of firms. They will be equipped with a battery of specific methods allowing them to determine how the inclusion of societal concerns in business strategies can enhance the economic viability of a business.

### *Course Contribution to Application of Critical Thinking*

The new practices of ethical finance entail a new definition of 'value', which is enlarged to encompass economic, social and environmental components on an equal level. These practices, however, appear incompatible with the current practices of mainstream finance, which is heavily influenced by logical positivism and the methodological individualism hypothesis based on the maximization of the shareholder utility function. For instance, academic finance focuses excessively on empirical research to develop policies rather than adopting a multi-disciplinary approach incorporating the lessons from other social sciences. These limits push us to reconsider the historical perspective of the evolution of modern finance, and, in particular, the original role played by ethics and the reasons for its historical disconnection with modern finance. It is our responsibility to critically review the false assumption that social welfare is simply the result of shareholders value maximization. In this course we will find in the different ethical finance practices ways to enrich financial thinking and financial practices, particularly with perspectives and contributions from different cultural horizons. In particular, we argue that there is a benefit in confronting ethical finance practices that provide complementary approaches regarding to the relevance of extra-financial criteria to be considered in current financial and business decisions. Should we promote a positivist consequentialist view associated to ESG performance as in the SRI movement? or should we adopt proactive regulation mechanisms for controversial financial instruments as in Islamic finance ? Should we substitute the shareholder for the stakeholder approach? This module will introduce students to these important issues, with the objective of re-embedding the management of organization into ethical concerns.

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### *Course Contribution to Integrating Diversity and Globalization in the Practice of Management*

It is now widely acknowledged that tackling the ongoing global economic, social and ecological crisis will require to redefine simultaneously the existing criteria for the allocation of capital, the modalities of corporate governance, and the mission of organizations. This objective is championed by several international bodies (such as the United Nations Environment Program Finance Initiative) and was recently put to the fore during the Paris COP21 2015 conference. It also echoes a myriad of initiatives undertaken by private actors around the globe to incorporate environmental and social values into financial decisions. Examples abound: ethical investment, impact investment, microcredit, social banking, alternative currencies, social stock exchanges, social economy, cooperatives... Such initiatives are far from being marginal, grow rapidly<sup>1</sup>, and operate on the premise that financial decisions and corporate governance should not be considered through the single lenses of shareholder profit maximization. The fiduciary duty of these sustainable financial actors is, in fact, enlarged to encompass three criteria, on an equal level: economic rationality (the financial autonomy constraint); environment (the sustainable use of resources constraint), and people (the balanced advancement of society constraint). In this context, we believe that academic finance has an important role to play to understand, refine, and disseminate such new sustainable financial practices. In this module, students will have an in-depth look at economic diversity and the epistemological definition of 'value'. They will also be introduced to a set of innovative management tools that can be applied to a wide range of projects and organizations.

### *Course Description*

Historical origins of ethics in finance, Development and crisis of modern finance, Corporate Social Responsibility, Socially Responsible Investment, Microfinance, Islamic Finance

## COURSE MATERIAL

### *Binder*

For each topic, powerpoint presentations, readings and example Excel spreadsheets (when relevant) will be provided. Students are required to download and read the material from the LEARN platform prior to each session.

### *Recommended books*

ARDALAN, K., 2008. On the Role of Paradigms in Finance. Ashgate, Hampshire, UK.

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<sup>1</sup> For instance, the combined total balance sheet of European social banks is about 15 billion euros.

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BENEDIKTER, R., 2011. Social Banking and Finance. A response to the economic crisis. Springer, Germany.

BOATRRIGHT, J. R., 1999. Ethics in finance, Blackwell Oxford.

CARROLL, A. B. (1999). Corporate social responsibility evolution of a definitional construct. *Business & society*, 38(3), 268-295.

DOMINI, A. L., 2001, Socially responsible investing: Making a difference and making money. Dearborn Trade Publishing.

EL-GAMAL, M. A., 2006. Islamic finance: Law, economics, and practice. Cambridge University Press.

KOTLER, P., Lee, N., 2008. Corporate social responsibility: Doing the most good for your company and your cause. John Wiley & Sons.

PARANQUE, B., PEREZ, R., 2016. Finance Reconsidered. New Perspectives for a Responsibles and Sustainable Finance. Critical Studies on Corporate Governance and Responsibility, Emerald (UK)

QUINONES, B., & REMENYI, J., 2014. Microfinance and poverty alleviation: Case studies from Asia and the Pacific. Routledge.

SPARKES, R., 2008. Socially responsible investment. John Wiley & Sons, Inc..

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## COURSE CONTENTS

Each session is divided into a formal lecture and a workshop, except for session 7 and 10 which are evaluation sessions. A tentative list of lecture topics and assignments is outlined in the table below.

<b>CLASS</b>	<b>TOPIC</b>	<b>ASSIGNMENTS</b>	<b>WORKSHOP</b>
<b>1</b>	<b>Introduction – History of Ethics and Money, Financialization, Crisis and Ethical revival</b>	Readings	Questions
<b>2</b>	<b>Corporate Social Responsibility, Responsiveness, and Performance</b>	Readings	Questions
<b>3</b>	<b>SRI : toward a sustainable form of investment</b>	Readings	Questions
<b>4</b>	<b>Micro-finance : the finance for poors</b>	Readings	Questions
<b>5</b>	<b>Islamic Finance: no interest but shared revenue</b>	Readings	Questions
<b>6</b>	<b>Firm’s ESG rating Case study</b>	Group work preparation	
<b>7</b>	<b>Firm’s ESG rating Case study</b>	Group work preparation	
<b>8</b>	<b>Case study presentations</b>	Excel spreadsheet and full report	
<b>9</b>	<b>Articles presentations</b>	Group presentations & synthesis	
<b>10</b>	<b>Final exam</b>		

## ETHICAL FINANCE AND SRI

### **Session 1: Introduction – History of Ethics and Money, Financialization, Crisis and Ethical revival**

- Introductory lecture: 3h

Contents:

- History of moral and money
- The financialization of the economy
- From financial to social crisis
- Towards more ethical considerations

- Articial review

Readings:

Boatright, J. R., 1999. Ethics in finance, Blackwell Oxford.

Paranque, B., 2016. The need for an alternative to shareholder value creation? The Ethomed experience. *Research in International Business and Finance (in press, corrected proof)*

Buchanan, B.,G., 2016. The way we live now: financialization and securitization. *Research in International Business and Finance (in press, corrected proof)*

Kim, D., et al. (2009). "Modernism, Christianity, and Business Ethics: A Worldview Perspective." *Journal of Business Ethics* 90(1): 115-121.

Mews, C. and I. Abraham (2007). Usury and Just Compensation: Religious and Financial Ethics in Historical Perspective. *Journal of Business Ethics* 72(1): 1-15

### **Session 2: Corporate Social Responsibility, Responsiveness, and Performance**

- Lecture : 3h

Contents:

- Distinction between responsibility, responsiveness and performance
- The CSR responses
- Examples of CSR and corporate citizenship.
- The corporate social performance (CSP)

- Article review

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### Readings:

Ghoshal, S., 2005. Bad management theories are destroying good management practices, *Academy of Management Learning and Education*, 2005, 4, p. 75–91.

Carroll, A. B. 1999. Corporate social responsibility evolution of a definitional construct. *Business & society*, 38(3), 268-295.

Frederick, W. C. (1986). "Toward CSR: Why Ethical Analysis is Indispensable and Unavoidable in Corporate Affairs." *California Management Review* 28(2).

### **Session 3: SRI: towards a responsible form of investment**

➤ Lecture : 3h

#### Contents:

- Origins and forms of SRI
- Institutionalization stage
- Global compact, GRI and PRI
- Actors of SRI markets
- The different markets
- The ESG ratings principles

➤ Article review

### Readings:

Renneboog, L., et al. (2008). "Socially responsible investments: Institutional aspects, performance, and investor behavior." *Journal of Banking & Finance* 32(9): 1723-1742.

Sandberg, J., et al. (2009). "The heterogeneity of socially responsible investment." *Journal of Business Ethics* 87(4): 519-533.

Sparkes, R. (2003). *Socially responsible investment: A global revolution*, Wiley.

Eurosif (2015). *Eurosif's 2015 European SRI Study*, Eurosif.

Global Reporting Initiative. — *Sustainability Reporting Guidelines*.

### **Session 4: Micro-finance : the finance for poors**

➤ Lecture : 3h

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### Contents:

- Microfinance need
- Failure of conventional financial system to meet the demand for credit of poor people.
- Source of demand and supply for credit in rural areas
- Characteristics of developing countries credit market
- Rural credit market imperfections.

- Article review

### Readings:

Morduch, J., 1990, The Microfinance Promise, Journal of Economic Literature

Morduch, J., 2000, The microfinance schism. World development, 28(4), 617-629

Armendáriz, B., & Morduch, J., 2010, The economics of microfinance. MIT press.

### **Session 5: Islamic Finance: no interest but shared revenue**

- Lecture : 3h

### Contents :

- Origins and overview of Islamic Finance industry
- Islamic finance model
- The ethical screening in Islamic investment

- Group assignment

### Readings:

El Gamal (2006). Islamic finance: Law, economics, and practice. Cambridge University Press.

Iqbal, Z. and A. Mirakhor (2011). An introduction to Islamic finance: theory and practice, Wiley. com.

Erragraguy, E. and C. Revelli (2015). "Should Islamic investors consider SRI criteria in their investment strategies?" Finance Research Letters 14: 11-19.



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Mirakhor, A. and N. Krichene (2009). The Recent Crisis: Lessons for Islamic Finance, Islamic Financial Services Board.

### **Session 6: Firm's ESG reporting: Case Study (part 1)**

- Group work preparation

### **Session 7: Firm's ESG reporting: Case Study (part 2)**

- Group work preparation

### **Session 8: Case study presentation**

- Discussion and Q/A on the ESG reporting
- Submission of reports

### **Session 9: Article review presentations**

- Discussion and Q/A on articles' presentations
- Submission of synthetic notes

### **Session 10 Final exam**

- Individual exam

## **TEACHING APPROACH/ INSTRUCTIONAL METHODS**

### ***A Word of Advice***

Students taking this course are not required to have exhaustive background in finance. Familiarity with the basic concepts of corporate and market finance is a plus, although the relevant topics will be covered during each session. A good economic culture and an interest for the subject are also highly desirable. The course will be conducted as a combination of formal lecture (in which the main concepts will be explained) and tutorials. Students will be asked to do preliminary readings before the each class. Class participation is mandatory.

### ***Assignments***

- During session 6, a case study focusing on the analysis and reporting of Environmental, Social and Governance ratings of a firm will be submitted to students in group work format (max of 6 students). It will be formed of 2 parts:
  1. Constitution of a detailed ESG scoring framework and reporting
  2. Writing of a complete argued note that will synthesize the main trends, outlines and conclusions.

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## *Exams*

The final individual exam will consist in a set of MCQ, short and long essay questions.

## EVALUATION OF STUDENT PERFORMANCE

The evaluation of this course emphasizes your understanding of the emerging market context and its implications for social entrepreneurship. It also focuses on transferable skills (working independently, working as a team, drafting a professional-looking report and communicating your results)

1 or 2 group or individual assignments	40%
Individual examination	60%
TOTAL	100 %

## Methods Used to Evaluate Student Performance

### Group work

**Role of Peer Evaluations for Group Components:** our experience has been that most team members cooperate well during project work. In the situation where there is less than equal contribution however, peer evaluations are used as a means of adjusting marks for individuals based on the evaluation of team members.

Each team member will evaluate the contribution of his/her peers. Any group member receiving a score of less than “10” from 3 or more peers will have his/her mark reduced by the average score.

For example, if a group receives a grade of 20/35 for an assignment but one team member receives ratings of 5, 7, 6, and 8 (average of 6.5) from his/her team members the score for that team member will be  $20 \cdot 6.5 = 13/35$ .

In the situation where there is no consensus on the performance of a group member; for example, if 2 scores are “10” and 2 are less than “10”, the individual’s mark will not be adjusted.

### Assignment 1: Case Study

Each group will select a listed firm (from US or EU markets) and conduct a full ESG performance report. The report should be submitted to the professor’s office in hard copy at the date communicated during the first class.

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**Document instructions:** Print your report double-sided. Do not use folders or binders. Include a title page and staple the report in the top left corner. Maximum length of the report is 20 pages. Evaluation grid for the case study follows.

Section	Marks	Criteria
Overall structure and presentation	5	Preparing a report. Evaluation: does the document look professional? Are charts and text used appropriately? Are there complementarities between text and figures?
Reasoning and methodology implementation	25	Use appropriate structure. Evaluation: is the rating methodology detailed? Is it implemented correctly? Are the sources specified? Are excel sheets used properly? Are the results presented in a synthetic manner?
Conclusions	5	Define recommendations and expected results. Evaluation: Are the recommendations well-linked to the analysis? Are the results expected from each recommendation defined and do they appear to be reasonable?

1. Presentations should be 15 minutes in length followed by a question period of 5 minutes.
2. Teams will use PowerPoint for the presentation.
3. At least 3 team members must present.

### **Assignment 2: Article review**

Each team will present a research article from a list submitted by the professor. Presentations will be accompanied by a note of 5 pages maximum to be submitted.

#### Instructions:

1. Presentations should be 15 minutes in length followed by a question period of 5 minutes.
2. Teams will use PowerPoint for the presentation.
3. At least 3 team members different from assignment 1 must present.

#### Evaluation Criteria

Presentation (10 marks):

1. compose a ppt presentation and a final summary note
2. Clarity and conciseness (7/10): the team should identify a relevant topic/issue linked to ethics in finance and present the ideas covered by the paper in a logical

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- sequence. They should critically review results and conclusions, emphasize important factors, provide their personal opinion and views concerning the topic and ensure proper timing.
3. Capability of the team to convince the audience of the relevance and interest of the topic. (3/10). The team should ensure that arguments are well-formed and well articulated.

Note (5 marks)

1. Clarity and precision (3/5): Teams should emphasize important aspects and select key description of methodology and results.
2. Relevance of critical analysis: (2/5): higher marks will be awarded to teams who demonstrate a good understanding of the most pressing problems.

### ASSESSMENT RUBRICS

	Below Requirements	Meets Requirements	Exceeds Requirements
<b>Understand the context</b>	No issues identified, or only peripheral issues.	Identifies main differences.	All potential issues with interactions.
<b>Understand the method</b>	Doesn't understand the methodological settings	Understand the methodological settings	Capable of identifying the limits in the methodological settings
<b>Report main results</b>	Results are not presented in a clear manner	Results are presented in a clear manner	Results are all presented and discussed
<b>Analysis/recommendations</b>	No proper conclusion or recommendations	Recommendations are present	Recommendations are relevant to the problematic

The above grid shows you how I intend to review your article.

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ABDOUNE Radouane (pronounce Red-One) obtained his Ph.D. in Finance from the University of Bordeaux, in 2014 and a Master in Finance in 2008 from the University of Bordeaux. He is currently Professor of Finance at Kedge Business School, Bordeaux

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### ACADEMIC FRAUD

#### *Definition*

Academic fraud is an act by a student, which may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences:

- a) Commits plagiarism or cheating of any kind.
- b) Submits a work of which the student is not the author, in whole or in part (except for duly cited quotations or references). Such work may include an academic paper, an essay, a test, an exam, a research report, and a thesis, whether written, oral, or in another form.
- c) Presents research data, which has been falsified or concocted in any way.
- d) Attributes a purported statement of fact or reference to a source which has been concocted.
- e) Submits the same piece of work or a significant part thereof for more than one course, or a thesis or other work which has already been submitted elsewhere, without written authorization of the professors concerned and/or of the academic unit concerned.
- f) Falsifies an academic evaluation, misrepresents an academic evaluation, uses a forged or falsified academic record or supporting document, or facilitates the use of a falsified academic record or supporting document.
- g) Undertakes any other action for the purpose of falsifying an academic evaluation.

#### *Sanctions*

A student who has committed or attempted to commit academic fraud, or who has been a party to academic fraud, will receive one of the sanctions below, as determined by the Disciplinary Committee:

- a) A mark of zero for the work concerned;
- b) A mark of zero for the course concerned;
- c) Suspension from the programme for a period of one year;
- d) Withdrawal from the programme.

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### Les sanctions suivantes sont extraites du Règlement intérieur applicable à tous les étudiants :

The Programme Director will decide to convoke a student to a Disciplinary Committee hearing if there is judged to be sufficient cause due to non respect of the rules & regulations (such as, for example, cheating in an exam, plagiarism, inappropriate behaviour).

Depending on the nature and seriousness of the problem, the Disciplinary Committee may decide to:

- impose pedagogical sanctions (zero grade for a test, a subject or all the grades in a session, banned from all exams, etc)
- give a written warning (recorded in the student's file but with no impact on the final graduation jury),
- a reprimand (recorded in the student's file. The student will not be given any leeway during the graduation jury),
- temporary exclusion from the programme,
- expulsion from the programme.

En cas de manquement jugé suffisamment grave d'un étudiant à une règle de fonctionnement ou de comportement (tel que, par exemple, la fraude en examen ou le plagiat), le Directeur du Programme peut décider de convoquer l'étudiant à un Conseil de discipline.

Selon la nature et la gravité du problème constaté, ce Conseil de discipline peut prononcer :

- des sanctions pédagogiques (zéro à une épreuve, à la matière ou à toutes les notes de la session, interdiction de se présenter à des épreuves,...),
- un avertissement (noté dans le dossier de l'étudiant, sans incidence lors du jury de diplôme)
- un blâme (noté dans le dossier de l'étudiant, l'étudiant ne pourra bénéficier d'aucune indulgence lors du jury de diplôme),
- une exclusion provisoire du programme,
- une exclusion définitive du programme.