



15.s56 - ESG Disclosure, Measurement, and Impact

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Course Materials

Required readings (available on Canvas):

- Friedman: The Social Responsibility of Business Is to Increase Its Profits
- The Business Roundtable and the Purpose of a Corporation
- Case: Jet Blue

Optional Textbook: Business Sustainability Reporting & Analysis. Dechow, P. and Sloan, R. Cambridge Business Publishers.

Class notes, homework, and other materials are posted at

<https://canvas.mit.edu/courses/31828>

Overview

Firms, investors, and regulators increasingly rely on ESG data. But how can we effectively measure the ESG performance of firms? And how can we effectively use this information for strategic decision making?

This two-day course helps managers, investors, and anyone working with ESG data to understand how those measure are constructed, what their pitfalls are, and how they can be used in strategic decision making. Students of this class will learn how firms report on ESG metrics, how ESG ratings are built, and how investors use them. The program makes use of case studies and worked examples. It also builds on the findings of MIT's Aggregate Confusion Project.

Program Description

The first part helps participants to understand key concepts such as risk vs impact, financial and double materiality, as well as the evolution of ESG reporting over time.

The second part dives into sustainability reporting. We will look at the differences between ISSB/SASB, GRI, ESRS, and GHG. The students will learn about what it means to effectively report on ESG performance and how firms approach it from different angles.

The third part looks at ESG ratings. An often criticized but essential construct to analyse sustainability disclosure by firms. First, we will explain the landscape of different ESG raters, while pointing out the commonalities and differences in their methodologies. Students will then construct their own rating and experience first-hand what the typical pitfalls are and which biases they should be aware of.

The fourth part focuses on the use of ESG information by firms and investors. We will have a look at firm commitments such as SBTi or investor commitments such as PRI. We will also discuss how investors can effectively use ESG information to increase returns or invest for impact. We discuss potential avenues for investor stewardship.

Agenda:

1st Class: Sustainability disclosure

1. Purpose of a company
2. Externalities
3. Case discussion – JetBlue
4. Sustainability disclosure
 - a. Sustainability reports
 - b. Financial reporting
 - c. Integrated Reporting
 - d. Sustainability disclosure standards
 - i. ISSB/SASB
 - ii. GRI
 - iii. CSRD
 - iv. GHG
 - e. Sustainability assurance

2nd Class: Sustainability disclosure

1. Exercise: Create your own double materiality assessment report
2. Speaker: Robert Massie

3rd Class: ESG ratings

1. The ESG rating landscape
2. The Aggregate Confusion of ESG ratings
3. ESG ratings methodologies
 - i. The case of MSCI
4. Exercise: Build your own ESG (DEI) rating
5. Impact of ESG ratings

4th Class: Sustainable finance

1. The history of sustainable finance and the crowding out of morality
2. Sustainable finance
 1. Investor commitments
 2. Portfolio construction
 3. Current trends in sustainable finance
3. Pricing of ESG and cost of capital
4. Can sustainable finance save the world?
 1. Impact
 2. Stewardship
5. The Original Sin of ESG
6. Speaker Veena Ramani

Speakers

Robert Massie

Bob Massie has been one of the most respected leaders in the field of sustainability and finance for more than three decades, combining far-sighted vision with lasting success in building alliances that have implemented deep system change.

A student anti-apartheid activist at Princeton in the 1970s, Massie obtained a master's degree in social and theological ethics from Yale Divinity School in 1982 and was ordained in the Episcopal church in 1983. He later received a doctorate in corporate strategy and finance from Harvard Business School in 1989. His dissertation focused on how institutional investors integrated moral and political concerns into their investment policies. In 1993 he served as a Senior Fulbright Scholar on the faculty of the Graduate School of Business of the University of Cape Town. In 1998 he published Loosing the Bonds: the United States and South Africa in the Apartheid Years, which won the 1998 Lionel Gelber prize for the best book in the world on international relations.

In 1996 Massie became the first president of Ceres and helped to build it into the powerful coalition of investors, corporations, and sustainability organizations it is today. In 1998, believing that key capital market actors needed high quality, comparable sustainability data, he co-founded and chaired the Global Reporting Initiative.

In 2002, he created and led the first Institutional Investor Summit on Climate Risk at United Nations headquarters in New York, an event that led to the formation of the Investor Network on Climate Risk, now the Ceres Investor Network. That same year he was picked by CFO magazine as one of the 100 most influential leaders in finance. He also served for three years on the original International Integrated Reporting Commission (IIRC) chaired by Justice Mervyn King of South Africa. He has won numerous prizes, including the 2018 Gold Medal of the Society for Progress at INSEAD. He has been a keynote speaker at sustainability and business conferences around the world and has for major publications such as the Los Angeles Times, the Boston Globe, the New York Times, the Nation, the World Economic Forum, and Institutional Investor.

On Dec 1, 2023, Dr. Massie became a Senior Research Scholar in the Sustainable Investing Research Initiative (SIRI) within the School of International and Public Affairs (SIPA) at Columbia University. He is now the director of the Pathways to Consensus program as well as Co-Chair of the Sustainable Finance Seminars, which will be replacing the Materiality Working Group.

Veena Ramani

Veena Ramani joined PRIM in 2023 as Director of Stewardship. She is responsible for coordinating and leading MassPRIM's stewardship and ESG activities, including supporting the Board ESG Committee, proxy voting efforts and other initiatives. Veena came to PRIM from FCLTGlobal, a nonprofit whose mission is to focus on the long term to support a sustainable and prosperous economy. As Research Director, Veena worked with asset owners, asset managers, and corporations to develop actionable research to drive long-term value creation for investors. Prior to FCLTGlobal, Veena spent 15 years at Ceres, a leading sustainability nonprofit. Her accomplishments included running programs to engage

financial regulators on the systemic risk of climate change, developing an online training curriculum for corporate board members on ESG in partnership with the Berkeley School of Law and engaging with large corporations on their sustainability and climate change strategies and disclosures. Veena has authored several research reports on climate change, ESG and governance. She holds a BA LL.B with honors degree from the National Law School of India University and a Masters of Law (LL.M) degree from Washington University School of Law.

LAP 2025