Corporate governance and corporate social responsibility

Department assigned to the subject: Department of Business Administration
Coordinating teacher: GUTIERREZ URTIAGA, MARIA
Type: Electives  ECTS Credits : 3.0
Year : 1 Semester : 2

STUDENTS ARE EXPECTED TO HAVE COMPLETED
- Target Audience: This course is targeted at students with degrees in Economics, Engineering, Mathematics, Physics or Business Administration.
- Program requirements: The students should have completed the Master's courses in Financial Markets (First Term) and Corporate Finance (Second Term).
- Language requirements: The course is taught in English.
- Computing requirements: There are no computing requirements for this course.

Professors:
- María Gutiérrez (UC3M). Coordinator. maria.gutierrez@uc3m.es
- Gregorio Urdiroz (CFA Institute Spain)

COMPETENCES AND SKILLS THAT WILL BE ACQUIRED AND LEARNING RESULTS.

COURSE DESCRIPTION

The aim of the course is to discuss how decision power is assigned inside the firm and how to handle the efficiency problems generated by the separation of ownership and control. Topics covered include optimal allocation of control rights, conflicts of interest between shareholders and debt-holders, conflicts of interest between shareholders and manager, concentrated versus dispersed ownership structures as a control mechanism, the design of managerial incentives, the use of M&A, leveraged buyouts and dividend policy as control mechanisms and the discussion of the stakeholders society and Corporate Social Responsibility as alternatives to the prevailing shareholders value maximization paradigm. These topics will be covered both at a theoretical and empirical level. The theory and empirical evidence will be covered in the lectures. But the exercises and the presentations of the cases and empirical papers are fundamental in order to grasp the practical applications of the theory.

LEARNING RESULTS

After this course you should be able to:
- Understand the way in which formal control rights are allocated to the shareholders and debt-holders and why these formal rights are vulnerable to the exercise of real control rights by managers and other stakeholders.
- Comprehend how the interests of the shareholders differ from the interest of other stakeholders and how optimal investment and financial decisions may be distorted to suit some particular interest and how this in turn destroys firm value.
- Evaluate the alternative control mechanisms that can be used to prevent the value destruction caused by the conflicts of interest: choice of ownership structure, design of incentives for the managers, choice of financial structure, hostile takeovers, etc.
- Discover reasons behind the most recent alternative proposals of governance (the stakeholders society and CSR). Analyze the potential gains and costs associated to these alternative governance paradigms.
- Knowing the importance of Ethics and Trust in the Investment Profession.
- Understanding the practical implications and applications of Standards of Professional Conduct of CFA Institute.

DESCRIPTION OF CONTENTS: PROGRAMME

DETAILED PROGRAM OF THE COURSE

The course is divided in two parts, the first is taught by an academic, the second by an expert in Business Ethics. Each part is divided into units.
Unit 1. Introduction to Corporate Governance.
1.1 Allocation of decision rights.
1.2 Formal versus real control rights: introduction to conflicts of interest inside the firm.
1.3 The shareholders’ value maximization paradigm.

Unit 2. Conflicts of interest between shareholders and debt-holders.
2.1 Conflicts of interest between shareholders and debt-holders.
2.2 Conflicts of interest between shareholders and managers.
2.3 Bankruptcy.

Unit 3. Control mechanisms
3.1 Supervision from within the firm.
3.2 Supervision from outside the firm.
3.3 The design of implicit and explicit managerial incentives.
3.4 The design of the capital structure as a control mechanism.

Unit 4. The Stakeholder society and CSR.
4.1 The stakeholder society.
4.2 Corporate social responsibility.

SECOND PART: BUSINESS ETHICS IN FINANCIAL MARKETS. CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT
(Professor: Gregorio Urdiroz)

2. Ethics and Trust in the Investment Profession.
3. CFA Institute and its Ethical Commitment
4. Code of Ethics
5. Standards of Professional Conduct
6. Examples of the interpretation of the Standards of Professional Conduct

LEARNING ACTIVITIES AND METHODOLOGY

METHODOLOGY

All lectures will follow the same schedule:

- We will start each unit reviewing the academic theory on the topic and the empirical evidence supporting it. The students will have to make sure they understand this material before they can start working on the exercises and case presentations.

- Some of the exercises for the unit will be solved by the professor at the end of the lecture. Other exercises will be assigned for the students to solve on their own and must be handed before the following lecture. Some of the exercises are based on real cases, others are more abstract but both types are fundamental parts of the course because they will allow you to understanding the extent to which "theoretical" and "practical" considerations interact in reality.

- Finally a case study related to the topics covered in the unit will be assigned to a group of students. Students are expected to form groups of three or four people. Each case will be assigned to a specific group (with prior notification). The group has to hand in a typewritten report of maximum 4 one sided pages. The report should contain both analysis and recommendations. The four-page limit is for text only. You may attach as many numerical calculations as you wish.

ASSESSMENT SYSTEM

EVALUATION CRITERIA

The final grade is based upon course assignments, class participation and a final exam.

Final exam: 60% (students will have to achieve a minimum grade of 4 out of 10 in the final exam in order to pass the course, irrespectively of their grades for the cases and exercises)

Course assignments: 30%

Exercises and class participation: 10%
% end-of-term-examination: 60
% of continuous assessment (assignments, laboratory, practicals...): 40

BASIC BIBLIOGRAPHY
- All that the students will need are: class notes, list of academic papers and, reading package.
- There is no book covering all, the topics, in the course.
- These will be handed out, at the beginning, of the course.

ADDITIONAL BIBLIOGRAPHY