



UNIVERSITY OF NOTRE DAME

SYLLABUS Corporate Governance and Catholic Social Teaching

FIN 40470

*Proposed for
SPRING 2019*

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Course Description

The content of this course provides the following three elements:

- describes important corporate governance mechanisms
- develops an understanding of the three main pillars of Catholic Social Teaching (dignity of the human person; solidarity or social charity; and subsidiarity) and the idea of the 'common good' and how these relate to how business can contribute to human flourishing
- compares the purpose, priorities and practice of business and thus of the discussed governance mechanisms in light of three views: Catholic Social Teaching; shareholder wealth maximization; and stakeholder theory

The course is reading-intensive (especially in the first half of the course) and writing-intensive. Sessions are divided into lectures, literature reviews and case discussions. Students are expected to be prepared for all sessions, even if no write-up is handed in for that particular session.

Catholicism in the Disciplines (CAD) Learning Goals

This course is a Catholicism in the Disciplines (CAD) course, and aims to fulfill both of the learning goals of CAD courses. In particular, the first learning goal is to become adept at examining faith or normative questions critically while exploring Catholic content from the perspective of corporate governance, and while exploring corporate governance topics from a distinctively Catholic perspective. The questions that are considered include (i) what does the dignity of the human person, as being made in the image of God, mean for people working in business? (ii) what do we owe others, or how to have relationships of solidarity, as a business and while working in business? (iii) what does true human flourishing look like, including the idea of integral human development, in the context of business? The other way around, the course considers

which corporate governance arrangements may be more fitting for a business environment ordered towards moral decisions, i.e., that contribute to human flourishing, having relationships of solidarity with everyone involved in the business (including a ‘preferential option for the poor’), and a social environment of subsidiarity in which each person can best develop themselves (and help others to do so) towards the ‘most virtuous version of oneself’.

The second learning goal is to be able to answer normative questions raised by various corporate governance events in light of competing alternatives. Three competing views on the purpose, priorities and practice of business are considered in this class, namely (i) Catholic Social Teaching; (ii) shareholder wealth maximization; and (iii) stakeholder theory. The central normative question raised is what criteria should be used when evaluating what business decisions are morally, socially and practically most defensible, focusing on decisions surrounding corporate takeovers and reorganizations. The class would also challenge one to reflect on (or discover elements of) one’s faith and to describe the extent to which one’s criteria are supported by faith and reason.

Schedule of Lectures

- 1) Lecture: Introduction to corporate governance (CG) and Catholic Social Teaching (CST)
- 2) CST literature review 1: Laudato Si’ (2015), I
- 3) CST literature review 1: Laudato Si’ (2015), II
- 4) Lecture: The purpose, priority and practice of business, I
- 5) Lecture: The purpose, priority and practice of business, II
- 6) CST literature review 2: Rerum Novarum (1891) and Quadragesimo Anno (1931), I
- 7) CST literature review 2: Rerum Novarum (1891) and Quadragesimo Anno (1931), II
- 8) CST literature review 3: Laborem Exercens (1981)
- 9) Lecture (CST pillar 1): Human dignity and business
- 10) CST literature review 4: Centesimus Annus (1991), I
- 11) CST literature review 4: Centesimus Annus (1991), II
- 12) Lecture (CST pillar 2): Solidarity and business
- 13) CST literature review 5: Caritas in Veritate (2009), I
- 14) CST literature review 5: Caritas in Veritate (2009), II
- 15) *MIDTERM in class (short essay-type questions on CST)*

Spring Break

- 16) Lecture (CST pillar 3): Subsidiarity and business
- 17) Shareholder wealth maximization literature review, I
- 18) Shareholder wealth maximization literature review, II
- 19) Lecture: The board, shareholder rights and corporate law
- 20) *Class cancelled (Easter Monday)*
- 21) Lecture: Virtues in business
- 22) Case: example of a takeover battle, Circon, 1
- 23) Case: example of a takeover battle, Circon, 2
- 24) Lecture: Shared Agency in Corporations
- 25) Stakeholder theory literature review, 1
- 26) Stakeholder theory literature review, 2
- 27) Case: Putting a value on values, Veridian, 1
- 28) Case: Putting a value on values, Veridian, 2
- 29) Wrap-Up

Active participation will serve to deepen your understanding and enrich the course for all involved.

Course Materials

Required

- **Lecture (Powerpoint) notes** – will be handed out in class
- **Assigned readings** – will be handed out in class and are made available electronically through Sakai
- **Cases** – please buy a case package at the Mendoza 3rd floor copy center, *available after Spring break*

The course materials contain copyrighted materials. Please do not distribute without my written consent.

Assignments: (i) case write-ups, (ii) literature reviews, (iii) final project and (iv) in-class presentation

- You are required to hand in **2 case write-ups**. The case write-ups can be done in teams of up to four students, and is the only part of the assignments that is not individual work. Please decide on your team at the beginning of the course yourself, and let me know about any changes after that. The case write-ups should include answers to all of the assigned questions. The write-ups should be typed and include no more than six pages of analysis (plus additional pages with exhibits as necessary), and be written in 12 font and 1.5 space. The assignments are due at the beginning of the case discussion in class. I will not accept late assignments. While 3 cases are discussed in class, only two case write-ups have to be handed in, but you are welcome to hand in three. For your grade, I will consider only the best two case write-ups handed in.
- You are required to hand in **3 literature reviews**. These are individual work. Your review should answer the assigned questions. The write-ups should be typed, include no more than five pages and be written in 12 font and 1.5 space. The assignments are due at the beginning of the relevant literature view session. I will not accept late assignments. You are graded **not** on whether your view agrees with one particular view discussed in any of the readings or in class or as reflected in my lectures, but rather on your understanding of the views expressed by the author(s) in the assigned readings and the strength of your own written argument.
- You are required to hand in **one final project write-up**. The assignment is to write an address to the fictional annual shareholder meeting of the company as discussed in the case write-up of “The Coup”. This is also individual work. I will give more details as we get closer to the due dates. **Your final project will due at noon on Saturday, May 5th, by emailing your Word or Pdf file to me.** I will not accept late assignments, but you are encouraged to hand it in early. This write-up should be typed and include no more than five pages (plus additional pages with exhibits as necessary), and be written in 12 font and 1.5 space. You are graded not on whether your view agrees with one particular view, but rather on your understanding of the various governance mechanisms discussed in class, the depth of your engagement with the three views discussed in class (Catholic Social Teaching; shareholder wealth maximization; and stakeholder theory) and the strength of your own written argument, not on whether your argument agrees with one particular view. Further detailed instructions will be given after we are done with the stakeholder theory literature review.
- You are required to do **one in-class presentation**, pertaining to one of the cases discussed in class. This presentation is individual work. Please prepare a presentation with Powerpoint slides of at least 5 minutes and no more than 10 minutes. Grading is done like the final project write-up.

The assigned questions will be distributed through Sakai at least a week before they are due.

Grading

Grades will be based on the following. I will follow the grading guidelines of the finance department. The grade will be based on the following approximate weights:

- 2 case write-ups (15%)
- 3 literature reviews (20%)
- Mid-term (20%)
- Final project (25%)
- In-class presentation (10%)
- Class participation (10%)

Honor Code

All students must comply with University policies for conduct and academic honesty at all times during this course. These policies are outlined in the Notre Dame Academic Code of Honor Handbook at www.nd.edu/~hnr/code. Any violations of these policies will result in referral to the appropriate administrative body. Assignments are expected to be completed according to the specified conditions, without the assistance of others. Giving or receiving help of any kind on any of the individual assignments is a violation of the Honor Code.

Required Readings (needs to be adjusted)

This is a reading intensive class. Please make sure you do the required readings ahead of time, especially in order to be able to discuss any assigned questions (which I’ll send through Sakai) in class. All readings below are required, except those

indicated as optional. Readings listed in italics are not included in the reading package but are available electronically through Sakai.

- 1) Pontifical Council for Justice and Peace – Vocation of the Business Leader
- 2) Martin Luther King – Sermon on the Man Who Was a Fool
- 3) Pope Francis – Laudato Si’ (2015) paragraphs # 1 – # 16, plus # 62 – # 129
- 4) Pope Benedict XVI – Deus Caritas Est (2005) (only what is in **bold**)
- 5) Cremers (2016) – Corporate Social Responsibility in Light of Laudato Si’
- 6) Pope Leo XIII – Rerum Novarum (1891) paragraphs # 1 – # 55 (page 1 – 23) *plus*
Pope Pius XI – Quadragesimo Anno (1931) paragraphs # 44 – # 88 (page 8–16) and # 132 – # 137 (page 23–24)
- 7) Cremers – What Corporate Governance Can Learn From Catholic Social Teachings
- 8) Pope Saint John Paul II – Laborem Exercens (1981) paragraphs #1–#15 (page 1–22) plus #24 – #27 (page 34–39)
- 9) Sandelands – The Business of Business is the Human Person (page 93 – 100)
Cusick – Management, Labor and the Development of the Human Person (page 20 – 26)
- 10) Pope Saint John Paul II – Centesimus Annus (1991) par. #4 – #17 (p. 3–14), #25 (p. 19 – 20), #32–#46 (p. 25–36)
- 11) Gordley – Good Faith and Profit Maximization (page 11 – 16)
- 12) Pope Benedict XVI – Caritas in Veritate (2009), what’s in **bold** + # 1 - # 7 (page 1 – 5), # 32 - # 40 (p. 19 – 26)
- 13) *Calleja-Cremers – The Business Firm as a “Concert of Liberties”*
- 14) *Becht-Bolton-Röell – Corporate Governance and Control* (page 24 – 49 and page 59 – 70)
LaPorta-Lopez-Shleifer-Vishny – Law and Finance (page 1113 – 1117 and page 1121 – 1134)
- 16) *Jensen-Meckling – Theory of the Firm* (page 305 – 313)
Sundaram-Inkpen – The Corporate Objective Revisited (page 350 – 360)
Becht-Bolton-Röell – Corporate Governance and Control (page 13 – 19)
Dobson – Is Shareholder Wealth Maximization Immoral? (page 69 – 74)
Friedman – The Social Responsibility of Business Is to Increase Its Profits (page 173 – 178)
Stout – Bad and Not-so-bad Arguments for Shareholder Primacy (page 1189 – 1209)
Roberto Goizueta and Jack Welch on shareholder wealth maximization (page 1 – 8)
- 19) Allen-Strine – When the Existing Economic Order Deserves a Champion (page 1383 – 1398)
Cremers-Sepe – The Shareholder Value of Empowered Boards (introduction)
Cremers-Masconale-Sepe – Entrenchment and Commitment in Corporate Governance (introduction)
- 21) Watch episode 5 “Anatomy of a Hostile Takeover”, at <http://www.learner.org/resources/series81.html>
Becht-Bolton-Röell – Corporate Governance and Control (page 19 – 24 and page 50 – 58)
- 25) Donaldson-Preston – The Stakeholder Theory of the Corporation (page 65 – 88)
- 27) Naughton – Participation in the Organization (page 923 – 934)
Garvey – The Theory of the Firm, Managerial Responsibility and CST (page 525 – 537)