

Sabancı MiF Program
Spring 2023
MFİN 800 – Project Course

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Office Hours: By appointment
Report Deadline: 17:00 on August 25th.

Course Objective:

The general purpose of this course is to motivate you to think about the reasons behind a corporate irresponsibility and its financial consequences for management, shareholders and any other affected stakeholder. You are expected to employ the relevant methods that you have learned and the knowledge that you have acquired during your master's studies to address these issues. The outcome of these efforts is expected to be a report explaining your findings.

Corporate Social Responsibility:

Socially responsible corporations place emphasis on environmental, social, and governance (ESG) issues and develop business models that make them socially accountable to all stakeholders. ESG policy refers to a set of standards for a company's operations that is used by regulators and investors to judge the performance of a company regarding ESG topics. It sums up the three central factors used for measuring the sustainability of a business. Environmental criterion is about a company's impact on the environment. Social criterion investigates a firm's policies about its employees, clients, suppliers. In other words, this criterion analyzes the relationship between the firm and everyone that are affected by the operations of the firm. Governance criterion examines how well a firm is governed by focusing on shareholder rights, board power, internal controls, executive pay, etc. Firms engaging in corporate social responsibility do not blindly target to increase shareholder value at the cost of harming other stakeholders including the society and environment.

Reading Material (accessible electronically via the SU Information Center):

Conceptual framework:

Benabou, R., and Tirole, J., 2010. Individual and corporate social responsibility. *Economica* 77 (305), 1–19.

Literature review – limited to empirical corporate finance studies:

Gillan, S., Koch, A., and Starks, L.T., 2021. Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance* 66, 101889.

Project Requirements:

The project involves a case study on a company that has scandalously failed at corporate social responsibility (CSR). The purpose of the report is to depict the key factors behind the failure and its consequences for various stakeholders including the management, shareholders, bondholders, customers and suppliers, employees, and the affected communities. To be able to pass the course, you are required to submit a project report by the deadline above.

Before doing any firm level analysis, you should get broadly acquainted with CSR/ESG research (starting with the reading material provided above). Then, pick a publicly listed firm that has been subject to an ESG scandal/failure and analyze it thoroughly. Make sure that there is sufficient publicly available information on the chosen firm and the failure in order to conduct a meaningful analysis.

At the beginning of the report, briefly introduce the chosen firm's business, sector, and location and explain why you picked that firm and scandal. Second, provide an overview of the firm's CSR policy prior to the failure. Explain what the firm lacked or did poorly regarding CSR based on the list of topics below and the findings described in Gillan et al. (2021) cited above. What are the main factors that might have contributed to the ESG failure? Third, discuss the various consequences of the ESG failure (e.g., financial performance from shareholder and creditor point of view, management/board shakeup, loss of reputation and market share, cost of new financing, stock market illiquidity, SRI exits, loss of key employees etc.) Finally, examine whether and how the firm addressed (or is addressing) the problems that resulted in the failure. If you do not see any significant improvements, what remains to be an obstacle for the firm to become more responsible?

Write the report as if you are addressing the (newly appointed) management and board members or a prospective major investor.

Specific topics:

Your report should touch upon the following topics that can be categorized as either reasons behind the selected ESG failure or its consequences. *You may focus only on those for which you can find readily available information or data.*

- financing choices and costs before and after the failure,
- CEO characteristics (e.g., age, marital status, has a daughter or not) and board structure (e.g., proportion of independent or female directors on the board),
- executive compensation policies (short-term vs. long-term incentives),
- investor demographics (e.g., presence of socially responsible investors (SRI), identity of the controlling shareholder (SRI, family, state etc.), presence of foreign investors and the ESG standards of their countries etc.),
- other firm characteristics (e.g., cash cow vs. financially constrained, multinational or not etc.),
- industry characteristics (e.g., ESG standards in the industry, competitiveness etc.),
- country characteristics (e.g., economic development, legal origin, political institutions or leniency, culture etc.),

- financial performance measured by different metrics such as the stock market reaction to the revelation of the failure,* changes in sales, profitability, and trading volume in the aftermath of the failure etc.,
- management and board shakeup (if any),
- employee dissatisfaction, departures, and the difficulties faced in talent attraction/retention,
- damage to the capacity for production, expansion, and innovation,
- (loss of) reputation and market share.

Grading:

Project report: 100% (Pass or Fail)

Report Format:

The report should be typed, double spaced with 12 font size and include an APA style references list. It should be minimum 6 pages long excluding the references. The report document should be in MS Word or PDF format.

Academic Honesty:

Learning is enhanced through cooperation and as such you are encouraged to work in groups, ask for and give help freely in all appropriate settings. At the same time, as a matter of personal integrity, you should only represent your own work as yours. Any work that is submitted to be evaluated in this class should be an original piece of writing, presenting your ideas in your own words. Everything you borrow from books, articles, or web sites (including those in the syllabus) should be properly cited. Although you are encouraged to discuss your ideas with others (including your friends in the class), it is important that you do not share your writing (slides, MS Excel files, reports, etc.) with anyone. Using ideas, text and other intellectual property developed by someone else while claiming it is your original work is *plagiarism*. Copying from others or providing answers or information, written or oral, to others is *cheating*. Unauthorized help from another person or having someone else write one's paper or assignment is *collusion*. Cheating, plagiarism and collusion are serious offenses that could result in an F grade and disciplinary action. Please pay utmost attention to avoid such accusations.

Note that submitted reports will be subject to Turnitin similarity analysis. *Reports with more than 20% similarity with other submitted reports or online resources must be rewritten and resubmitted.*

* See, for example, Krüger, P., 2015. Corporate goodness and shareholder wealth. Journal of Financial Economics 115 (2), 304–329.