# Corporate governance

## Prof. Carlo Bellavite Pellegrini

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course is designed to provide students with a broad-based understanding of the main issues of *corporate* *governance*. Firstly, the course aims to examine the theoretical and empirical premises for *corporate* *governance*, the ways in which corporate governance satisfies the expectations of *shareholders* and *stakeholders*, and the corporate and market problems that corporate governance is capable of solving.

In addition, the course aims to pay special attention to the nature and types of the different players who contribute to creating a *corporate*-*governance* system, and where *corporate* *governance* is placed within the economic and political system and within which businesses operate, with an analysis of the links between *corporate* *governance* and *governance* *system*. After an initial overview of these main institutional elements, the course will provide a detailed analysis of the composition and functioning of the Board of directors, the *managers’* role, the alternative models of *corporate governance systems*, the institutional investors’ activism and the functioning mechanisms of the control system. Finally, the course aims at focusing on the latest and most relevant *corporate governance* issues: the *corporate social responsibility (CSR)* and the Socially Responsible Investments (SRI), the *gender equality*, the *ESG* indicators *(Environmental, Social and Governance indicators*) and the corporate performance. Each set of topics will be supported by adequate empirical evidence in the world.

*Knowledge and understanding*

At the end of the course, students will be able to appreciate the importance of the main issues of *corporate governance*, they will know its institutional features as well as the composition of the different corporate bodies, the correct functioning of the different control systems, and the corporate governance models. In particular, at the end of the course students will be able to:

* know the different forms of the legal entities that carry out business activities and understand the interaction between investment decisions and financing decisions, especially in capital companies;
* Identify and establish the factors that determine the choice of the company's financial structure;
* know and understand the dynamics underlying the definition of the corporate financial structure, being able to evaluate the costs associated with the various sources of financing, with a brief overview of the Modigliani-Miller theorem (1958; 1963) without taxes and with corporate and personal taxes, with the purpose of identifying an excellent financial structure;
* to study in detail, the issue of agency costs of equity and debt, by analysing also the literature and the theoretical reference models and evaluate the possible remedies for these costs.
* know the economic subjects and institutions involved in corporate governance;
* identify the different types of ownership structures and investigate the link between governance and corporate performance;
* know the main models of corporate governance also following the Corporate Law Reform: the traditional model and alternative governance models.
* investigate issues related to the possible links between the costs of the control system and business performance, also by analysing the existing literature.

– identify and understand the most innovative corporate governance issues such as *Corporate Social Responsibility* (CSR), *Socially Responsible Investing* (SRI), *gender equality*, *ESG (Environmental, Social and Governance*)indicators.

*Ability to apply knowledge and understanding*

At the end of the course, students will be able to apply the different knowledge acquired to theoretical and empirical cases related to corporate situations in the field of governance. In particular, students will be able to identify the main corporate governance and agency problems, identify the most appropriate remedies, and evaluate the efficiency of the governance within a company.

At the end of the course, among the various skills acquired, students will be able to:

* define and evaluate different financial structures in practical cases;
* evaluate the role of corporate disclosure in light of the Agency theory;
* evaluate and compare the various financial instruments, also in terms of possible tools for managing the different problems of corporate governance;
* analyse and compare the advantages and problems of the different corporate governance systems;
* analyse in detail some of the main empirical evidences of corporate governance, both at national and international level, by comparing the different costs and benefits, assessing their adequacy and contextualising these evidences in light of the international financial crisis;
* know and evaluate the links between the issues of system governance and corporate governance.
* identify and structure adequate measures for better corporate governance and implement a correct system of controls, also in terms of *corporate social responsibility* (CSR), by applying the most recent *ESG (Environmental, Social and Governance*)indicators.

***COURSE CONTENT***

The course is structured around different issues linked with each other in a sequence. Each set of topics is subdivided into points.

1. The company, the Neo-institutionalism theory of the firm, the perimeter of the business activity, the different institutional forms of legal entities engaged in economic activities, the company *mission*, with special focus on capital companies. Definitions of *corporate governance*: evolutionary lines and regulatory frame of reference. Value creation and enterprise risk management: the link among the different financial instruments, and the *shareholders* and *stakeholders’* rights.

2. *Agency theory*, ownership structure and financial structure of the companies: the literature on the main agency costs of equity and debt, the remedies proposed for these agency costs.

3. Empirical evidence of ownership structures: the different types of financial instruments, the types of shareholders, industrial and financial investors, the institutional investors.

4. Structure and composition of the Board of directors: composition and functioning of the *board*. The internal bodies and the functioning of the committees, the independence requirements. The managers and the managerial remuneration issues. Empirical evidence of the board of directors functioning. The *gender equality.*

5. The alternative *corporate governance* models: the one-tier and two-tier system. Theoretical aspects and empirical evidence.

6. The activism of institutional investors in their different forms.

7. The control system and the enterprise risk management: functioning mechanisms and main empirical evidence.

8. The market for corporate control, ownership structures the *governance* in the world: the market-oriented system, the relationship-oriented system. The main empirical evidence.

9. *New issues* on Corporate Governance: CSR and SRI, ESG indicators and corporate performance.

***READING LIST***

Collection of readings (available on the Blackboard site for the course).

Supplemental material (slides, data, and other reading list references) will be made available weekly to the students via the Blackboard site for the course.

*Textbooks*

P. Singer-C.A. Sirianni*,* *La corporate governance. elementi di teoria e profili operativi,* Giappichelli, 2015.

R. Monks – N. Minow, *Corporate Governance John Wiley and Sons*, 5th edition, 2011.

# F. Chiappetta *Diritto del Governo Societario. La Corporate Governance delle Società Quotate,* CEDAM 2020.

Suggested textbooks

C. Bellavite Pellegrini-L. Pellegrini-M. Catizone, C*limate Change Adaptation, Governance and New Issues of Value. Measuring the impact of ESG scores on CoE and Firm Performance,* Palgrave Mac Millan, 2022

C. Bellavite Pellegrini, R. Caruso *Società Benefit: Profili giuridici ed economico-aziendali,* Egea, Milano, Italia pp.240. 2023.

C. Bellavite Pellegrini, M. Dallocchio, E. Parazzini *Valutazione d’azienda nel mondo esg*, Egea, Milano, pp. 135, 2020.

C. Mayer, Prosperity: *Better Business Makes the Greater Good  –* OUP Oxford (8 novembre 2018), pp 288, 2018.

C. Bellavite Pellegrini, *Pirelli, innovazione e passione, 1872-2015”, Storie di Imprese*, Il Mulino, Bologna, pp. 838, 2015.

C. Bellavite Pellegrini, *Una storia italiana. Dal Banco Ambrosiano a Intesa Sanpaolo – Con i Diari di Carlo Azeglio Ciampi pp. 562. Il Mulino, Bologna, 2013.*

G. Bosi - S. Trento, *Il governo dell’impresa. Economa e diritto della corporate governance.* Il Mulino, Bologna, 2012.

C. Bellavite Pellegrini, *Modelli d’equilibrio e fondamentali d’impresa - I rendimenti azionari nell’area dell’euro,* Carocci Editore S.p.A, Rome, 2008.

It is possible that reading references and other instructional materials will be indicated during the lectures.

***TEACHING METHOD***

The course will be taught through lectures, involving theory presentations by both the professor and the students, and possible presentations by experts in the field.

An additional 12-hour module will be activated by Dr. Marco Seracini (ENI).

***ASSESSMENT METHOD AND CRITERIA***

The exam is written and takes place in the exam session. The test consists of 3 theoretical questions and the time allowed is approximately 120 minutes in total.

This test is aimed at assessing the overall preparation of the student, both as regards the institutional and fundamental aspects of *corporate governance*, and in relation to their applicative and empirical uses in concrete cases. Through the written test, students will firstly have to demonstrate to know and familiar with the themes and the fundamental issues discussed during lectures. The assessment will be based on the relevance of the students’ answers, their appropriate use of the specific terminology, an argumentative and consistent structure of the speech, their ability to identify conceptual links.

Attending students have the possibility to be invited by the lecturer to develop *case-studies and assignments*. These projects will be included in the overall assessment of the exam and weigh 25% of the final mark.

***NOTES AND PREREQUISITES***

Before attending the course, students should:

* have a solid basic knowledge of the main topics of Business Economics and Accounting;
* have a solid basic knowledge of the main topics of Corporate Finance;
* have a solid basic knowledge of Private Law and Commercial Law, as well as a basic knowledge of the financial market as a whole;
* be able to conduct independent analyses and reasoning regarding the above concepts and interpret their significance.

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG or on the Faculty notice board.