

MGST 451

Corporate Governance and Ethical Decision-Making

Lecture 6 – Winter 2019 L01-L03

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- Register at www.tophat.com:
 - MGST451W19L03
- join code: 958143
- In-class activity 2: **a four stage quest**
 - You must bring a \$1 'loonie' to class and quickly enrol (i.e. provide \$1 and your name for registration);
 - You will possibly lose your \$1, but you will be provided with two challenging opportunities to get it back (and more!);
 - No money will be kept by the Instructor – i.e. all money will be returned to the class;
 - You must quickly follow all instructions provided;
 - Would you, please, bring your smartphone (for Top Hat);
 - If you are already familiar with the games, be a good sport and do not ruin the experience of the other students.

Instructions

- You get a card in front of you, face down – do not look at it until instructed otherwise.
- There are two kinds of cards: ones with a dollar sign ('\$') and one with a null sign ('Ø'), in a one to three proportion (i.e. three nulls for one dollar).
- The game is timed to last 10 minutes during which a student bringing both a dollar card and at least one null card to the podium gets three dollars (\$3). Everybody else get nothing.

You can turn your card now and see you in 10 minutes !!!

Debrief

- What are the incentives for the holders of \$ cards?
- What are the incentives for the holders of \emptyset cards?
- The balance of power is in the hands of whom?
- Can you predict how much money the holders of \$ cards end up with on average? how much for the holders of \emptyset cards?
- How much money you ended up with? (Top Hat feedback)
- Rate the fairness of the game (0% unfair; 100% fair)
- Rate the rationality of the game (0% irrational; 100% rational)
- Is there is a tension between rationality and fairness amongst the players? What is the source of such a conflict?

Instructions

- All students have to submit a number between 0 and 100.
- The winner is the student who guess best the $\frac{2}{3}$ average of the numbers having been submitted by all participants.
- The game is played twice (one practice run and a final run).
- The winner of the final run gets all the money left over.

Practice run

- You can now submit your chosen number on Top Hat.
- The winner of the practice run is the closest to...

Final run

- You can now submit your chosen number on Top Hat.
- The winner of the final run is the closest to...

Debrief

- The purpose of the game is to illustrate how hard it is to guess the degree of rationality of others when 'double guessing'.
- If all players are 100% rational and each and every player expect other players to be 100% rational, therefore all players will choose to submit the number 0.
- However, if there is some doubt about all participants being 100% rational (i.e. suspect that at least one player will not submit a 0), then submitting a 1 is a better strategy.
- But if one player expects all players to submit a 1 except one submitting higher, then maybe submitting a 2 is best ...
- Is there is a tension between rationality and irrationality amongst the players? What is the source of such a conflict?

Instructions

- Form a team of three or four (for about 10 minutes).
- Without looking on the internet, you need to discuss and guess how much of the success of a company is typically attributed to the CEO by the Board of Directors (0% to 100%).
- Can Directors be 100% rational (i.e. not subjective at all) when attributing a % to the CEO contribution to firm's success?

Feedback on Top Hat

- Report your guess how much of the success of a company a typical Board of Directors attributes to the CEO (0% to 100%).
- Report your appreciation Board of Directors degree of rationality (0% being fully subjective up to 100% rational).

Instructions

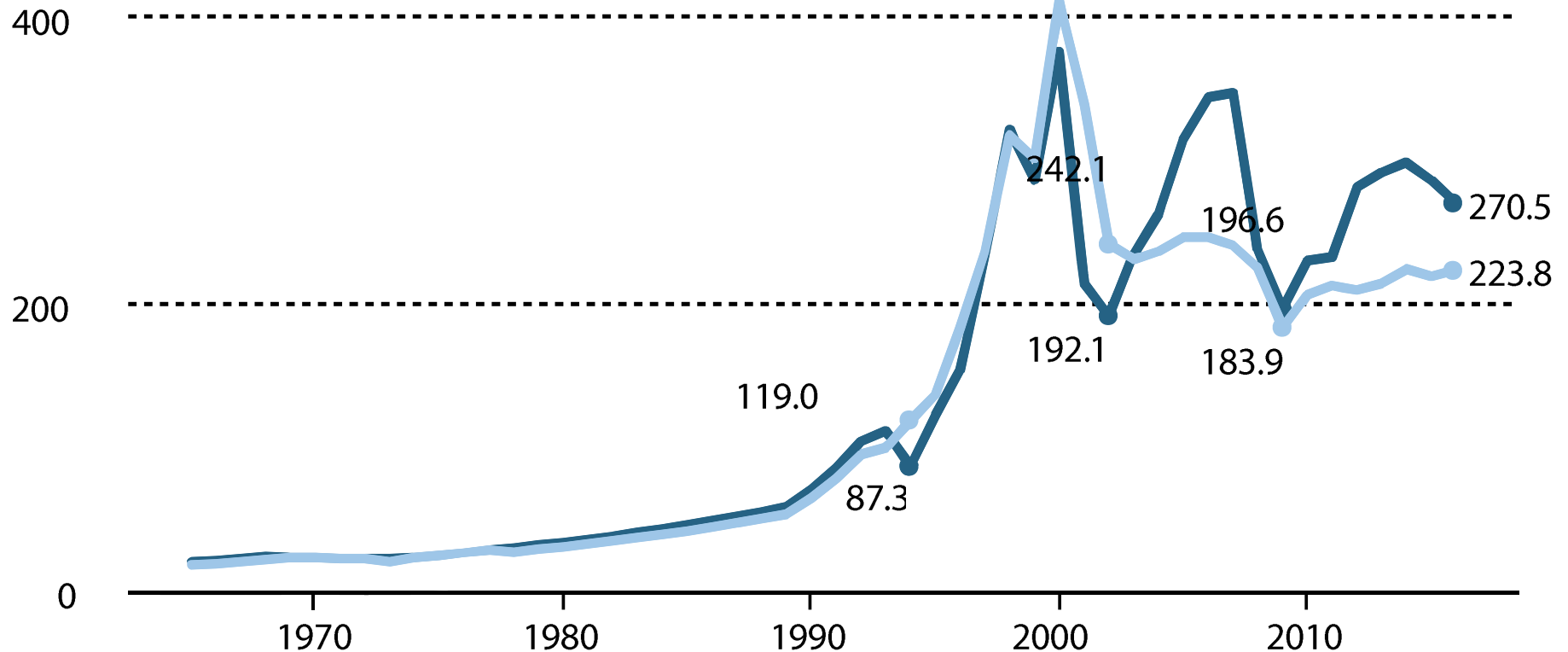
- Get with your team (again for about 10 minutes).
- GSB survey indicates Board Members in the US typically attribute 40% of the success of a firm to the CEO (CEOs: 30%).
- CEOs in the US earn on average between \$10 to \$20 millions, significantly more than the average employee (300X to 400X).

Feedback on Top Hat

- Report your appreciation of compensating CEOs so much (0% being completely unfair to 100% being completely fair).
- Report your view of the rationality of CEOs compensation (0% being irrational to 100% being completely rational).

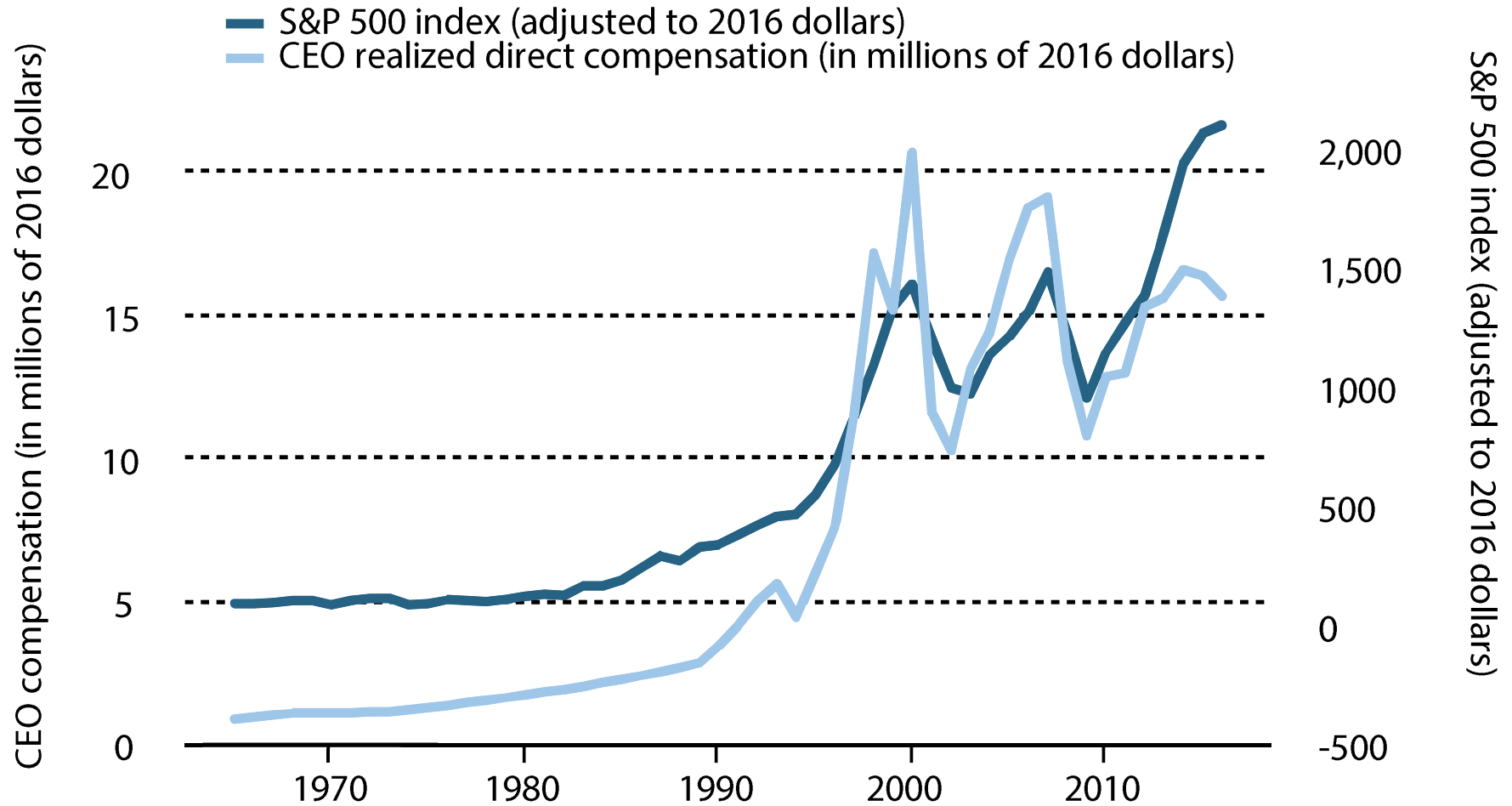
CEO-to-worker compensation ratio over time

- CEO-to-worker compensation ratio based on options realized
- CEO-to-worker compensation ratio based on options granted



Source: Economic Policy Institute (2017)

CEO compensation over time



Source: Economic Policy Institute (2017)