



MASTER OF SCIENCE IN FINANCE

FINANCE 394 – PRIVATE EQUITY

SPRING 2016

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Office Hours	Tuesdays and Thursdays 5:00 – 6:00 pm, Wednesdays 9:00 – 10:00 am, Others by appointment
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Course Web Page	Canvas
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Classes	Tuesdays and Thursdays, 3:00 pm – 4:45 pm, GSB 2.120

Course Objectives

Private equity (“PE”) is a major source of capital for new, growing and established private and public firms. The size of the PE market has grown dramatically since the early 1990s. For example, more than \$2.3 trillion in PE capital has been raised since the beginning of 2010, and PE firms now have more than \$1.3 trillion in dry powder – available funds or commitments.

As investors have been attracted to PE markets, funds have developed specialized strategies and targeted specific market segments. In addition to leverage buyout (“LBO”) and venture funds, there are other types of funds including growth, mezzanine, middle market buyout, infrastructure, and energy funds that have become attractive investment vehicles for institutional investors, particularly as yields from other investments have declined over the past several years.

The objective of this course is to provide you with a structural understanding of PE markets, the primary participants in these markets, and the financial strategies that they employ.

Topics covered include:

- What is PE?
- How do PE firms work?
- What are the challenges that PE investors encounter and how do they address them?
- What is the governance structure of the funds and the companies in which they invest?
- How are companies valued?
- What are the available merger and acquisition (“M&A”) and other exit strategies?
- What is changing in the PE market and what might happen next?

We will use class lectures, case studies and journal articles and a thorough understanding of the material is required.

I would like to take this opportunity to point out that the pace of this course is deliberately uneven. It is my policy to cover purely descriptive topics at a fairly crisp pace, since the comprehension of such material ultimately depends upon your individual study. I will use the time thus accumulated to cover the analytical topics more deliberately.

Prerequisites

Graduate standing and Business Administration 285T or 385T. Additional prerequisite include: Finance 286, 394 (Topic 1), and credit or registration for Finance 397 (Topic 1: Investment Theory and Practice).

Leadership and this Course

The Texas MSF program is designed to develop influential business leaders. The MSF Program has identified four fundamental and broad pillars of leadership: knowledge and understanding, communication and collaboration, responsibility and integrity, and a worldview of business and society.

In this course, you will expand your knowledge and understanding of how businesses raise capital, how PE provides a governance structure that can enhance corporate value, and how businesses are monetized through public offerings, private buyouts, and mergers and acquisitions.

You will further develop your analytic, communication and leadership skills through in-class discussions, group case analyses, exams and class discussions.

By understanding how capital can be raised in the PE market, you will be better prepared to meaningfully contribute to the strategic success of any company or organization for which you work.

Materials

- Required
 - Class Notes, which contains the majority of the information that we will cover in the course. There is a separate set of Class Notes for each major topic that we will cover. The Class Notes that apply to each topic will be handed out in class at the time that we cover the topic and provided electronically.
 - Each edition of the *Wall Street Journal* should be read.
 - Additional articles and readings that will be assigned and discussed during the semester. These will be distributed electronically and, at times, in class.
- Optional
 - Private Equity
 - *The Masters of Private Equity and Venture Capital*, 2009, by Robert Finkel and David Greising
 - *The New Tycoons: Inside the Trillion Dollar Private Equity Industry that Owns Everything*, 2012, by Jason Kelly
 - *Private Equity: History, Governance, and Operations*, 2012, by Harry Cendrowski, Louis W. Petro, James P. Martin, Adam A. Wadecki
 - *Private Equity 4.0: Reinventing Value Creation*, 2015, by Benot Leleux, Hans van Swaay, Esmeralda Megally
 - *Private Equity Operational Due Diligence + Website: Tools to Evaluate Liquidity, Valuation, and Documentation*, 2012, by Jason A. Scharfman
 - *Venture Capital, Private Equity, and the Financing of Entrepreneurship*, 2012, by Josh Lerner, Ann Leamon, Felda Hardymon
 - Valuation
 - *Valuation: Measuring and Managing the Value of Companies, Fourth Edition*, 2005, by Tom Copeland, Tim Koller and Jack Murrin, John Wiley & Sons, Inc.
 - Other
 - *Good to Great: Why Some Companies Make the Leap...And Others Don't*, 2001, by Jim Collins, HarperBusiness.

Course Requirements and Grading

The assessment policy for this course is specified in the following paragraphs. Please read it very carefully. In the interest of fairness to all students, **no exceptions will be made.**

Your grade in this course is based upon your performance on a mid-term exam, a final exam, a group case presentation, peer evaluation, and class participation. The components of your grade, and the weights that each shall receive, are presented in the following table:

<u>Grade Component</u>	<u>Percentage of Final Grade</u>
Mid-Term Exam	25
Case	30
Final Exam	30
Peer Evaluation	5
Class Participation	10
Total	100

You will also receive review questions during the semester. Although, your answers to the questions will not be collected or graded, I will provide you with answers so that you may evaluate your progress during the course.

Examinations

The mid-term and final exams will include short answer and essay questions. The exams will cover all of the topics that we discuss in class up to that point.

Our mid-term exam will be given on **Tuesday, February 9th**, during the first part of the class period.

Our final exam will be given during the final exam period assigned to the class. I will let you know as soon as I receive our final exam schedule.

Anyone who does not take an exam on the set date and time will receive a grade of zero for that exam, unless other mutually agreeable arrangements are made in advance.

Case Study – Executive Report

The class will be segmented into groups of three or four people, and each group will develop an analysis of a PE case. The case will be provided on Tuesday, February 9th, and will be due on Thursday, March 3rd, our last day of class. Each group will be required to provide a written analysis of the case, but you are not required to prepare a class presentation. You should, however, be prepared to discuss all aspects of your analysis in class.

Executive Report: Written Analysis

The first part of the Executive Report will be a single-spaced summary of the salient aspects of the case and should not exceed one page in length. The Executive Summary should be clearly labeled at the top of the page. The purpose of the Executive Summary is to provide a briefing for a busy upper-level decision-maker. The summary must stand alone, so that it can be used independently of the case analysis. It should include a statement of the issues, a brief discussion of alternatives and a recommendation for action. You must write the summary in a manner that conveys all pertinent information and convinces the reader that your recommendation is the proper alternative.

The Executive Summary should be followed by the case analysis. This section should be 8-14 pages in length, excluding tables and charts, with three major parts described below:

- Statement of the Issues
 - Provide a brief overview of the fundamental strategic issues the firm must address.
- Discussion
 - Write a brief discussion of the fundamental elements of the case that you considered while developing your analysis. Furthermore, you should address any alternative solutions considered.

- Appendix
 - Include your analysis and any other pertinent information. This additional information is required and should be used to support your conclusions. Inclusion of unnecessary information, however, will not be viewed favorably.

General Comments

- Assume that the reader understands the basic attributes of the industry.
- Assume that the reader understands basic financial concepts. Avoid using technical jargon that is not commonly understood. If technical terms are necessary, then explain them.
- Clearly and succinctly explain any tables, charts or other information in the body of your case analysis. The reader should not have to refer directly to the additional information to understand your analysis.
- You are strongly encouraged to present your written analysis in the fewest pages necessary to effectively analyze the acquisition candidate. More is not necessarily better.

The entire report, including the Executive Summary, analysis and supporting information should not exceed 25 pages. The font size of the type should be 12 point or larger, and the text should be double-spaced except for the Executive Summary, which should be single-spaced. The margins for your paper should be a minimum of one inch on all sides. If you have any questions about whether your paper fulfills these requirements, then please speak with me before you submit it. Any deviation from these requirements will result in an automatic reduction in the report's score.

Evaluation of the Executive Report

The case will be graded on a 100-point scale. Reports submitted after the time in class in which they are due will receive a 10-point penalty for the first day, or any portion thereof, and 10 points per day for subsequent days down to a minimum of 0 points. The principal determinant of your grade will be the content of the analysis. The aesthetic appeal and grammatical structure of your report, however, will be important determinants of your grade.

I will consider the following questions when determining the grade for your report:

- Is the report formatted according to the instructions provided in the syllabus?
- Does the Executive Summary present a clear set of recommendations?
- Are the recommendations supported in the summary by logical arguments?
- Does the full report provide a fully developed discussion of the major issues confronting the firm?
- Are the language, style, and approach of the paper appropriate for the intended audience and purpose?
- Is the paper easy to read and logically organized, and is it easy for the reader to grasp the points made?
- Are the sentences and paragraphs structured properly throughout the paper?
- Is the paper free from spelling and grammatical errors?

Executive Report: Class Discussion

Each group should be prepared to discuss its analysis and recommendations. Groups will be selected at random to discuss and defend their conclusions and recommendations. You need not prepare a formal presentation, just be prepared to thoroughly discuss your results.

Executive Report: Grades

Each executive report will receive a potential maximum of 100 points.

Class Participation

You are expected to be familiar with the lecture, reading and case materials. Student participation is imperative for the success of this course, and you should feel free to ask questions and join in discussions at all times.

Your class participation grade will be based on the quality and quantity of your contribution to class discussions, but the quality of your contributions will be far more important. I will consider the following components, among others, when evaluating your class participation. Was the comment or question:

- Relevant,
- Timely,
- Thoughtful, and
- Reasonable?

Relatively frequent contributions to the discussion that demonstrate logical and thorough thought and analysis will be required to receive the full 10%.

Class participation also includes being a valuable member of your case group. During the final examination, I will distribute a peer evaluation survey to help measure your contribution to the preparation of the case. I will use that information along with my own perceptions to determine your group participation score, which may total up to 5% of your grade.

Policy Rules

The following rules apply to the assessment policy. They must be observed in order to receive a grade in this course.

1. ***No Academic Incompletes are given in this course.***
2. All inquiries concerning your exam or case analyses must be submitted **in writing within two weeks** after the date the exams and reports are returned, respectively.
3. Your final letter grade is determined solely by the sources defined under the assessment section of this syllabus. No additional work will be available with which to improve your grade.

Course Outline

The course outline is provided in the following table, which is subject to change at my discretion.

The table includes the date of the class, the topic and the required reading materials. The Class Notes will be distributed in class, and the additional reading materials will be made available on Canvas. A journal article list and description of each article is provided in the next section of this Syllabus.

<u>Date</u>	<u>Topic</u>	<u>Reading Material</u>
Jan. 19	Course introduction and outline, PE history, characteristics, performance, basis for performance and returns	Class Notes; Harris, Jenkinson and Kaplan (2014); Gou, Hotchkiss and Song (2011); Kaplan and Stromberg (2008)
Jan. 21	Governance, the market for corporate control and returns, sources of PE, the LP agreement and GP incentives	Class Notes; Acharaya, Gottschalg, Hahn and Kehoe (2013); Cummings, Siegel and Wright (2007); Wruck (2007), Note on Private Equity Partnership Agreements by Lerner, Hardyman and Leamon; Metrick and Yasuda (2010)
Jan. 26	PE lifecycle, management fees, carried interest and other issues, deal sourcing and valuation, challenges of private company valuation, valuation methods	Class Notes; Note on Valuation in Private Equity Settings by Lerner, Hardyman and Leamon

Date	Topic	Reading Material
Jan. 28	Valuation continued, due diligence	Class Notes; Brown and Wiles (2015)
Feb. 2	Deal structuring - objectives Equity securities, investment documents - term sheet, definitive agreements	Class Notes; Note on Private Equity Securities by Lerner, Hardyman and Leamon
Feb. 4	Investment documents, continued	Class Notes
Feb. 9	Mid-term Exam , case distribution and discussion	Case that will be distributed in class.
Feb. 11	Post closing adjustments, antidilution, ratchets, staged investments, cram downs,	Class Notes; Brown and Wiles (2016)
Feb. 16	Structuring a buyout, objectives, CFADS, securities, capital structure, buyout terms and agreements, covenants	Class Notes; Cohn, Mills and Towery (2014); Axelson, Stromberg and Weisbach (2009)
Feb. 18	Post-closing governance, the board of directors, operations, governance techniques, information, monitoring and KPIs	Class Notes; Masulis and Thomas (2009); Wright, Amess, Weir and Girma (2009); Cornelli and Karakas (2012); Matthews, Bye and Howland (2009)
Feb. 23	Management compensation and incentives, Exits - IPOs, acquisitions, buyouts, partial exits, shut down	Class Notes; Stromberg (2008)
Feb. 25	PE distributions - cash vs stock, timing	Class Notes; Between a Rock and a Hard Place: Valuation and Distribution in Private Equity by Lerner, Hardyman and Leamon
Mar. 1	Mistakes Entrepreneurs Make, the future of PE	Class Notes; Kaplan (2009)
Mar. 3	Cases due - Class discussion	Case Analyses
TBD	Final Exam	

Journal Article List

Axelsson, Ulf, Per Stromberg and Michael Weisbach (2009). **Why Are Buyouts Levered? The Financial Structure of Private Equity Funds.** *Journal of Finance* 64, pp. 1549-82.

Private equity funds are important to the economy, yet there is little analysis explaining their financial structure. In our model the financial structure minimizes agency conflicts between fund managers and investors. Relative to financing each deal separately, raising a fund where the manager receives a fraction of aggregate excess returns reduces incentives to make bad investments. Efficiency is further improved by requiring funds to also use deal-by-deal debt financing, which becomes unavailable in states where internal discipline fails. Private equity investment becomes highly sensitive to aggregate credit conditions and investments in bad states outperform investments in good states.

Brown, Keith C., and Kenneth W. Wiles (2015). **In Search of Unicorns: Private IPOs and the Changing Markets for Private Equity Investments and Corporate Control.** *Journal of Applied Corporate Finance* Volume 27, Number 3, Summer 2015, pp. 34 – 48.

Our goal in this study is to examine the development and economic consequences of the recent capital market movement toward the growing use of Private IPO (“PIPO”) financing. We begin our investigation by analyzing the research literature on private equity transactions to assess the likely effects of private market investments on corporate operations and governance, and we then offer our speculations as to how PIPO transactions fit into that story. Next we describe the details of a large data sample of unicorn firms we have gathered, including the industry affiliations and geographical dispersion of the companies involved in addition to the range of market valuations and funding rounds raised. Following that analysis, we consider the specific supply and demand conditions that are driving the present market for PIPOs and address some prospective research implications about companies that are able to grow with the use of private capital rather than having to resort to financing themselves in public markets.

Brown, Keith C., and Kenneth W. Wiles (2016). **Opaque Financial Contracting and Toxic Term Sheets in Venture Capital.** *The University of Texas at Austin, Department of Finance, Working paper.*

Our objective in this study is to examine the economic consequences of the financing terms that are commonly negotiated in venture capital transactions. We argue that many of these contracting provisions are both poorly understood (i.e., “opaque”) by at least some of the participants in the deal and may also allow for either a subsequent wealth transfer between stakeholders or an outright destruction of value in the overall enterprise (i.e., “toxic”). In particular, we observe that the tendency for venture capital term sheets—the documents summarizing the financing conditions and stipulations that define the transaction—to become more toxic and opaque over time is a direct outcome of the multi-stage nature of the fundraising process used in the venture capital industry. Further, we demonstrate that incentive conflicts between parties often result from the desire of new investors to protect themselves against downside risk events through the adoption of anti-dilution (i.e., “ratchet”) provisions that come at the expense of previous investors and company employees.

Cohn, Jonathan, Lillian Mills and Erin Towery (2014). **The evolution of capital structure and operating performance after leveraged buyouts: Evidence from U.S. corporate tax returns.** *Journal of Financial Economics* 111, pp. 469-94.

This study uses corporate tax return data to examine the evolution of firms' financial structure and performance after leveraged buyouts (LBOs) for a comprehensive sample of 317 LBOs taking place between 1995 and 2007. We find little evidence of operating improvements subsequent to an LBO, although consistent with prior studies, we do observe operating improvements in the set of LBO firms that have public financial statements. We also find that firms do not reduce leverage after LBOs, even if they generate excess cash flow. Our results suggest that effecting a sustained change in capital structure is a conscious objective of the LBO structure.

Cornelli, Francesca and Oguzhan Karakas (2012). **Corporate Governance of LBOs: The Role of Boards.**

This paper examines board composition and CEO turnover when a public company is taken private by a private equity group in an LBO, using a new data set of all public to private transactions in the UK between 1998 and 2003. We find that when a company goes private, the board size is reduced and outside directors are replaced by LBO sponsors. LBO sponsors' presence on the board is higher for more complex and challenging transactions, suggesting intensive involvement of private equity when its supervision is needed. We also find that the presence of LBO sponsors on the board decreases CEO turnover and its sensitivity to performance, but increases operating performance. This suggests that effective monitoring of private equity reduces the reliance on short-term performance and allows for a longer-term horizon for CEOs. It also calls into question the traditional view of CEO turnover as a sign of an effective board.

Gou, Shouren, Edith Hotchkiss, and Weihong Song (2011). **Do Buyouts (Still) Create Value?** *Journal of Finance* 66, pp.479-517.

We examine how leveraged buyouts from the most recent wave of public to private transactions created value. Buyouts completed between 1990 and 2006 are more conservatively priced and less levered than their predecessors from the 1980s. For deals with post-buyout data available, median market- and risk-adjusted returns to pre- (post-) buyout capital invested are 72.5% (40.9%). In contrast, gains in operating performance are either comparable to or slightly exceed those observed for benchmark firms. Increases in industry valuation multiples and realized tax benefits from increasing leverage, while private, are each economically as important as operating gains in explaining realized returns.

Harris, Robert, Tim Jenkinson, and Steven Kaplan (2014). **Private Equity Performance: What Do We Know?** *Journal of Finance* 69, pp. 1851-82.

We study the performance of nearly 1,400 U.S. buyout and venture capital funds using a new data set from Burgiss. We find better buyout fund performance than previously documented—performance has consistently exceeded that of public markets. Outperformance versus the S&P 500 averages 20% to 27% over a fund's life and more than 3% annually. Venture capital funds outperformed public equities in the 1990s, but underperformed in the 2000s. Our conclusions are robust to various indices and risk controls. Performance in Cambridge Associates and Preqin is qualitatively similar to that in Burgiss, but is lower in Venture Economics.

Kaplan, Steven (2009). **The Future of Private Equity.** *Journal of Applied Corporate Finance* 21, pp. 8-20.

The relative attractiveness of being a public company CEO is as low as it's ever been, with the downward pressure on pay and the increasing invasiveness from government on all dimensions. On the private equity side, by contrast, there continues to be very high pay for performance for top executives and much less regulatory pressure, particularly while the company is private. And today's CEOs can also benefit from the operating and strategic capabilities supplied by the better PE firms.

Kaplan, Steven and Per Stromberg (2008). **Leveraged Buyouts and Private Equity.** *Journal of Economic Perspectives* 22.

In a leveraged buyout, a company is acquired by a specialized investment firm using a relatively small portion of equity and a relatively large portion of outside debt financing. The leveraged buyout investment firms today refer to themselves (and are generally referred to) as private equity firms. We describe and present time series evidence on the private equity industry, considering both firms and transactions. We discuss the existing empirical evidence on the economics of the firms and transactions. We consider similarities and differences between the recent private equity wave and the wave of the 1980s. Finally, we speculate on what the evidence implies for the future of private equity.

Wruck, Karen H. (2008), **Private Equity, Corporate Governance, and the Reinvention of the Market for Corporate Control.** *Journal of Applied Corporate Finance* Volume 20, Number 3, pp. 8-19.

In the mid-1960s, legal scholar Henry Manne introduced the concept of the "market for corporate control." During the first U.S. wave of debt-financed hostile takeovers and leveraged buyouts, finance professors Michael Jensen and Richard Ruback refined its definition as "the market in which alternative management teams compete for the right to manage corporate resources." Since then, the dramatic expansion of the private equity market, and the resulting competition between corporate (or "strategic") and "financial" buyers for deals, have both reinforced and revealed the limitations of this old definition. This article explains how, over the past 25 years, the private equity market has helped reinvent the market for corporate control, particularly in the U.S.

Grade Distribution

The MSF Program Committee approved the following target grade distribution for all Core and Flex Core courses: A (4.00) 25%, A- (3.67) 20%, B+ (3.33) 15%, B (3.00) 35%, B- or below (2.67) 5%. This course uses that target distribution as a guideline for establishing final grades.

Other Items

Canvas – Students should check Canvas regularly. I will post any announcements, changes to the course schedule, as well as other useful information on that site.

Suggestions – If you have thoughts or suggestions about how the course could be improved, please let me know.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MSF experience hinges on this.

You should treat the Texas MSF classroom as you would a corporate boardroom.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MSF classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students are fully prepared for each class.** Much of the learning in the Texas MSF program takes place during classroom discussions. When students are not prepared, they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Students do not confuse the classroom for the cafeteria.** The classroom (boardroom) is not the place to eat your breakfast tacos, wraps, sweet potato fries, or otherwise set up for a picnic. Please plan accordingly. Recognizing that back-to-back classes sometimes take place over the lunch hour, energy bars and similar snacks are permitted. Please be respectful of your fellow students and faculty in your choices.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Technology is used to enhance the class experience.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of technology in class. Faculty will let you know when it is appropriate.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

Academic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. As a Texas MSF student, you agree to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should consider the writing of all examinations to be an individual effort. Group preparation for examinations is acceptable and encouraged. You should not discuss the contents of any exam until after everyone in all sections of the class have taken the exam. The members of your case group are expected to work together, but the case analyses should be the original work of the group members.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Honor Code Purpose

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the McCombs School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

Faculty Involvement in the Honor System

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

Expectations Under the Honor System

Standards

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Management Office. Below are some of the specific examples of violations of the Honor System.

Lying

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

Stealing

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

Cheating

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

Actions Required for Responding to Suspected and Known Violations

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the McCombs School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the McCombs School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the McCombs School of Business."

The following pages provide specific guidance about the Standard of Academic Integrity at the University of Texas at Austin. Please read it carefully and feel free to ask me any questions you might have.

Excerpts from the University of Texas at Austin Office of the Dean of Students website
(http://deanofstudents.utexas.edu/sjs/acint_student.php)

The Standard of Academic Integrity

A fundamental principle for any educational institution, academic integrity is highly valued and seriously regarded at The University of Texas at Austin, as emphasized in the standards of conduct. More specifically, you and other students are expected to "maintain absolute integrity and a high standard of individual honor in scholastic work" undertaken at the University (Sec. 11-801, *Institutional Rules on Student Services and Activities*). This is a very basic expectation that is further reinforced by the University's Honor Code. At a minimum, you should complete any assignments, exams, and other scholastic endeavors with the utmost honesty, which requires you to:

- acknowledge the contributions of other sources to your scholastic efforts;
- complete your assignments independently unless expressly authorized to seek or obtain assistance in preparing them;
- follow instructions for assignments and exams, and observe the standards of your academic discipline; and
- avoid engaging in any form of academic dishonesty on behalf of yourself or another student.

For the official policies on academic integrity and scholastic dishonesty, please refer to Chapter 11 of the *Institutional Rules on Student Services and Activities*.

What is Scholastic Dishonesty?

In promoting a high standard of academic integrity, the University broadly defines scholastic dishonesty—basically, all conduct that violates this standard, including *any act designed to give an unfair or undeserved academic advantage*, such as:

- Cheating
- Plagiarism
- Unauthorized Collaboration
- Collusion
- Falsifying Academic Records
- Misrepresenting Facts (e.g., providing false information to postpone an exam, obtain an extended deadline for an assignment, or even gain an unearned financial benefit)
- Any other acts (or attempted acts) that violate the basic standard of academic integrity (e.g., multiple submissions—submitting essentially the same written assignment for two courses without authorization to do so)

Several types of scholastic dishonesty—[unauthorized collaboration](#), [plagiarism](#), and [multiple submissions](#)—are discussed in more detail on this Web site to correct common misperceptions about these particular offenses and suggest ways to avoid committing them.

For the University's official definition of scholastic dishonesty, see [Section 11-802](#), *Institutional Rules on Student Services and Activities*.

Unauthorized Collaboration

If you work with another person on an assignment for credit *without the instructor's permission to do so*, you are engaging in unauthorized collaboration.

- This common form of academic dishonesty can occur with all types of scholastic work—papers, homework, tests (take-home or in-class), lab reports, computer programming projects, or any other assignments to be submitted for credit.
- For the University's official definitions of unauthorized collaboration and the related offense of collusion, see Sections [11-802\(c\)\(6\)](#) & [11-802\(e\)](#), *Institutional Rules on Student Services and Activities*.

Some students mistakenly assume that they can work together on an assignment as long as the instructor has not expressly prohibited collaborative efforts.

- Actually, students are expected to complete assignments independently unless the course instructor indicates otherwise. So working together on assignments is *not* permitted unless the instructor specifically approves of any such collaboration.

Unfortunately, students who engage in unauthorized collaboration tend to justify doing so through various rationalizations. For example, some argue that they contributed to the work, and others maintain that working together on an assignment "helped them learn better."

- The instructor—not the student—determines the purpose of a particular assignment *and* the acceptable method for completing it. Unless working together on an assignment has been specifically authorized, always assume it is not allowed.
- Many educators do value group assignments and other collaborative efforts, recognizing their potential for developing and enhancing specific learning skills. And course requirements in some classes do consist primarily of group assignments. But the expectation of individual work is the prevailing norm in many classes, consistent with the presumption of original work that remains a fundamental tenet of scholarship in the American educational system.

Some students incorrectly assume that the degree of any permissible collaboration is basically the same for all classes.

- The extent of any permissible collaboration can vary widely from one class to the next, even from one project to the next within the same class.
- Be sure to distinguish between collaboration that is authorized for a particular assignment *and* unauthorized collaboration that is undertaken for the sake of expedience or convenience to benefit you and/or another student. By failing to make this key distinction, you are much more likely to engage in unauthorized collaboration. To avoid any such outcome, always seek clarification from the instructor.

Unauthorized collaboration can also occur in conjunction with group projects.

- How so? If the degree or type of collaboration exceeds the parameters expressly approved by the instructor. An instructor may allow (or even expect) students to work together on one stage of a group project but require independent work on other phases. Any such distinctions should be strictly observed.

Providing another student unauthorized assistance on an assignment is also a violation, even without the prospect of benefiting yourself.

- If an instructor did not authorize students to work together on a particular assignment *and* you help a student complete that assignment, you are providing unauthorized assistance and, in effect, facilitating an act of academic dishonesty. Equally important, you can be held accountable for doing so.
- For similar reasons, you should not allow another student access to your drafted or completed assignments unless the instructor has permitted those materials to be shared in that manner.

Plagiarism

Plagiarism is another serious violation of academic integrity. In simplest terms, this occurs if you represent as *your own work* any material that was obtained from another source, regardless how or where you acquired it.

- Plagiarism can occur with *all* types of media—scholarly or non-academic, published or unpublished—written publications, Internet sources, oral presentations, illustrations, computer code, scientific data or analyses, music, art, and other forms of expression. (See [Section 11-802\(d\)](#) of the *Institutional Rules on Student Services and Activities* for the University's official definition of plagiarism.)
- Borrowed material from written works can include entire papers, one or more paragraphs, single phrases, or any other excerpts from a variety of sources such as books, journal articles, magazines, downloaded Internet documents, purchased papers from commercial writing services, papers obtained from other students (including homework assignments), etc.
- As a general rule, the use of any borrowed material results in plagiarism if the original source is not properly acknowledged. So you can be held accountable for plagiarizing material in either a final submission of an assignment or a draft that is being submitted to an instructor for review, comments, and/or approval.

Using *verbatim* material (e.g., exact words) without proper attribution (or credit) constitutes the most blatant form of plagiarism. However, other types of material can be plagiarized as well, such as *ideas* drawn from an original source or even its *structure* (e.g., sentence construction or line of argument).

- Improper or insufficient paraphrasing often accounts for this type of plagiarism. (See additional information on [paraphrasing](#).)

Plagiarism can be committed intentionally or unintentionally.

- Strictly speaking, any use of material from another source without proper attribution constitutes plagiarism, regardless why that occurred, and any such conduct violates accepted standards of academic integrity.
- Some students deliberately plagiarize, often rationalizing this misconduct with a variety of excuses: falling behind and succumbing to the pressures of meeting deadlines; feeling overworked and wishing to reduce their workloads; compensating for actual (or perceived) academic or language deficiencies; and/or justifying plagiarism on other grounds.
- But some students commit plagiarism without intending to do so, often stumbling into negligent plagiarism as a result of sloppy note taking, insufficient paraphrasing, and/or ineffective proofreading. Those problems, however, neither justify nor excuse this breach of academic standards. By misunderstanding the meaning of plagiarism and/or failing to cite sources accurately, you are much more likely to commit this violation. Avoiding that outcome requires, at a minimum, a clear understanding of plagiarism *and* the appropriate techniques for scholarly attribution. (See related information on [paraphrasing](#); [note taking and proofreading](#); and [acknowledging and citing sources](#).)

By merely changing a few words or rearranging several words or sentences, you are *not* paraphrasing. Making minor revisions to borrowed text amounts to plagiarism.

- Even if properly cited, a "paraphrase" that is too similar to the original source's wording and/or structure is, in fact, plagiarized. (See additional information on [paraphrasing](#).)

Remember, your instructors should be able to clearly identify which materials (e.g., words and ideas) are your own *and* which originated with other sources.

- That cannot be accomplished without proper attribution. You must give credit where it is due, acknowledging the sources of any borrowed passages, ideas, or other types of materials, and enclosing any verbatim excerpts with quotation marks (using block indentation for longer passages).

Plagiarism & Unauthorized Collaboration

[Plagiarism](#) and [unauthorized collaboration](#) are often committed jointly.

By submitting *as your own work* any unattributed material that you obtained from other sources (including the contributions of another student who assisted you in preparing a homework assignment), you have committed plagiarism. And if the instructor did not authorize students to work together on the assignment, you have also engaged in unauthorized collaboration. Both violations contribute to the same fundamental deception—representing material obtained from another source as your own work.

Group efforts that extend beyond the limits approved by an instructor frequently involve plagiarism in addition to unauthorized collaboration. For example, an instructor may allow students to work together while researching a subject, but require each student to write a separate report. If the students collaborate while writing their reports *and* then submit the products of those joint efforts as individual works, they are guilty of unauthorized collaboration as well as plagiarism. In other words, the students collaborated on the written assignment without authorization to do so, and also failed to acknowledge the other students' contributions to their own individual reports.

Multiple Submissions

Submitting the same paper (or other type of assignment) for two courses *without prior approval* represents another form of academic dishonesty.

You may not submit a substantially similar paper or project for credit in two (or more) courses unless expressly authorized to do so by your instructor(s). (See [Section 11-802\(b\)](#) of the *Institutional Rules on Student Services and Activities* for the University's official definition of scholastic dishonesty.)

You may, however, re-work or supplement previous work on a topic with the instructor's approval.

Some students mistakenly assume that they are entitled to submit the same paper (or other assignment) for two (or more) classes simply because they authored the original work.

Unfortunately, students with this viewpoint tend to overlook the relevant ethical and academic issues, focusing instead on their own "authorship" of the original material and personal interest in receiving essentially double credit for a single effort.

Unauthorized multiple submissions are inherently deceptive. After all, an instructor reasonably assumes that any completed assignments being submitted for credit were actually prepared for that course. Mindful of that assumption, students who "recycle" their own papers from one course to another make an effort to convey that impression. For instance, a student may revise the original title page or imply through some other means that he or she wrote the paper for that particular course, sometimes to the extent of discussing a "proposed" paper topic with the instructor or presenting a "draft" of the paper before submitting the "recycled" work for credit.

The issue of plagiarism is also relevant. If, for example, you previously prepared a paper for one course and then submit it for credit in another course without citing the initial work, you are committing plagiarism—essentially "self-plagiarism"—the term used by some institutions. Recall the broad scope of [plagiarism](#): all types of materials can be plagiarized, including unpublished works, even papers you previously wrote.

Another problem concerns the resulting "unfair academic advantage" that is specifically referenced in the University's definition of scholastic dishonesty. If you submit a paper for one course that you prepared and submitted for another class, you are simply better situated to devote more time and energy toward fulfilling other requirements for the subsequent course than would be available to classmates who are completing all course requirements during that semester. In effect, you would be gaining an unfair academic advantage, which constitutes academic dishonesty as it is defined on this campus.

Some students, of course, do recognize one or more of these ethical issues, but still refrain from citing their authorship of prior papers to avoid earning reduced (or zero) credit for the same works in other classes. That underlying motivation further illustrates the deceptive nature of unauthorized multiple submissions.

An additional issue concerns the problematic minimal efforts involved in "recycling" papers (or other prepared assignments). Exerting minimal effort basically undercuts the curricular objectives associated with a particular assignment and the course itself. Likewise, the practice of "recycling" papers subverts important learning goals for individual degree programs and higher education in general, such as the mastery of specific skills that students should acquire and develop in preparing written assignments. This demanding but necessary process is somewhat analogous to the required regimen of athletes, like the numerous laps and other repetitive training exercises that runners must successfully complete to prepare adequately for a marathon.