



# FIN 536 Corporate Governance Module II, 2018-2019

## Course Information

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### **Instructor: Di Li**

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Office Hour: Tuesday & Friday 13:30-14:30 (or by appointment)

### **Classes:**

Lectures: Tuesday & Friday, 10:30-12:20

Venue: PHBS Building, Room 225

### **Course Website:**

Go to PHBS Course Management System (CMS): [cms.phbs.pku.edu.cn](http://cms.phbs.pku.edu.cn). After you log in, search and enrol into the course "Corporate Governance (2018-19M2)" using the code "CG18M2". **All students must register** into CMS because the course assignments will be distributed and submitted through the course website.

## 1. Course Description

### 1.1 Context

Course overview:

This course reviews fundamental theories and practices of corporate governance. Topics include: the history of the corporation, board of directors, the division of profit sharing and various forms of employee ownership and equity ownership among insiders, regulation, shareholder activism, the impact of takeovers on corporate governance, ethical issues such as conflicts of interest and insider trading, international corporate governance, and policy developments likely to impact the corporation, etc. The class will be organized as a mix of lectures, case studies, and topic discussions.

Prerequisites:

This course presumes that students have taken basic courses in accounting, economics, finance, and econometrics. Students are recommended to have completed the following course: "Corporate Finance."

### 1.2 Textbooks and Reading Materials

Lecture notes, assignments, academic articles, and other useful materials will be posted on the course web page.

### Reference Texts:

*Corporate Governance*, by Robert Monks and Nell Minow. John Wiley & Sons, 5<sup>th</sup> ed. (MM).

*A Real Look at Real World Corporate Governance*, by David Larcker and Brian Tayan (LT).

*Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences*, by David Larcker and Brian Tayan, 2<sup>nd</sup> ed.

*Corporate Governance: Principles, Policies, and Practices*, by Bob Tricker. Oxford University Press, 3<sup>rd</sup> ed.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment (YES with details or NO)
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	√
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	√
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	√
	2.2. Students will be able to apply leadership theories and related skills.	√
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	√
	3.2. Our students will practice ethics in the duration of the program.	√
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	√
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	√
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	√
	5.3. Our students will demonstrate competency in critical thinking.	√

### 2.3 Assessment/Grading Details

The course grade will be determined by the following scheme:

Mid-term exam	40%
Project 1	15%
Project 2	30%
Class Assignment	10%
Class Attendance	5%
Total	100%

## 2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

## 3. Topics, Teaching and Assessment Schedule

The following course outline is an approximate schedule of topics to be covered. Please note that it is subject to change.

Date	Topics
Nov. 16, Friday	Introduction of the course Introduction of corporate governance I The role and purpose of corporate governance Theoretical aspects of corporate governance Agency theory and separation of ownership and control Reading: MM Chapter 1
Nov. 20, Tuesday	Introduction of corporate governance II Corporate governance mechanisms International corporate governance Seven myths of corporate governance Reading: MM Chapter 1 Bebchuk and Weisbach (2010), "The State of Corporate Governance Research," <i>Review of Financial Studies</i> , 23(3), 939-961. Shleifer and Vishny (1997), "A Survey of Corporate Governance," <i>Journal of Finance</i> , 52(2), 737-783. Larcker and Tayan, "Seven Myths of Corporate Governance," Stanford University working paper.

Nov. 23, Friday	<p>Shareholders and Shareholder Activism I</p> <ul style="list-style-type: none"> <li>Ownership structure and firm performance</li> <li>The role of institutional investors</li> <li>Proxy fights and takeover bids</li> </ul> <p><b>Case Study: Chrysler Takeover Attempt</b></p> <p>Reading: MM Chapter 2</p>
Nov. 27, Tuesday	<p>Shareholders and Shareholder Activism II</p> <ul style="list-style-type: none"> <li>Hedge fund activism</li> <li>Market for corporate control</li> <li>The threat of takeover</li> <li>G-index and E-index</li> </ul> <p>Reading: MM Chapter 2</p> <p><b>Brav et al. (2008), "Hedge Fund Activism, Corporate Governance and Firm Performance," <i>Journal of Finance</i>, 63(4), 1729-1775.</b></p> <p><b>Gantchev, Gredil, and Jotikasthira (2017), "Governance under the Gun: Spillover Effects of Hedge Fund Activism," Southern Methodist University working paper.</b></p> <p>Klein and Zur (2009), "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors," <i>Journal of Finance</i>, 64(1), 187-229.</p> <p><b>Brav et al. (2017), "How Does Hedge Fund Activism Reshape Corporate Innovation?" <i>Journal of Financial Economics</i> forthcoming.</b></p> <p>Gompers, Ishii, and Metrick (2003), "Corporate Governance and Equity Prices," <i>Quarterly Journal of Economics</i>, 118(1), 107-156.</p> <p>Bebchuk, Cohen, and Ferrell (2008), "What Matters in Corporate Governance?" <i>Review of Financial Studies</i>, 22(1), 783-827.</p>
Nov. 30, Friday	<p>Controlling Shareholders I</p> <ul style="list-style-type: none"> <li>Controlling-minority shareholder structure</li> <li>Dual-class stock, corporate pyramids, or cross-holdings</li> <li>Family-owned firms and governance</li> </ul> <p>Reading: MM Chapter 2</p> <p>Bebchuk, Kraakman, and Triantis (1999), "Stock Pyramids, Cross-Ownership, and Dual Class Equity: The Creation and Agency Costs of Separating Control From Cash Flow Rights," in <i>Concentrated Corporate Ownership</i> (2000), Randall K. Morck, editor (p. 295-318).</p>

Dec. 4, Tuesday	<p>Controlling Shareholders II</p> <p>Reading:</p> <p>MM Chapter 2</p> <p><b>Bertrand, Mehta, and Mullainathan (2002), "Ferretting out Tunneling: An Application to Indian Business Groups," <i>Quarterly Journal of Economics</i>, 117(1), 121-148.</b></p> <p>Almeida and Wolfenzon (2006), "A Theory of Pyramidal Ownership and Family Business Groups," <i>Journal of Finance</i>, 61(6), 2637-2680.</p>
Dec. 7, Friday	<p>Controlling Shareholders III</p> <p>Decoupling of economic and voting ownership</p> <p>Empty voting</p> <p>Reading:</p> <p>MM Chapter 2</p> <p>Hu and Black (2007), "Hedge Funds, Insiders, and the Decoupling of Economic and Voting Ownership: Empty Voting and Hidden (Morphable) Ownership," <i>Journal of Corporate Finance</i>, 13(2-3), 343-367.</p> <p><b>Assignment due:</b> Project 1</p>
Dec. 11, Tuesday	<p><b>Midterm exam</b></p>
Dec. 14, Friday	<p>Board of Directors I</p> <p>Director and board structure</p> <p>Who are they? Role, fiduciary duties and responsibilities</p> <p>Reading:</p> <p>MM Chapter 3</p> <p>LT Part I</p> <p>Adams, Hermalin, and Weisbach (2010), "The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey," <i>Journal of Economic Literature</i>, 48(1), 58-107.</p> <p>Hermalin and Weisbach (1998), "Endogenously Chosen Boards of Directors and Their Monitoring of Management," <i>American Economic Review</i>, 88(1), 96-118.</p> <p><b>Ahern and Dittmar (2012), "The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation," <i>Quarterly Journal of Economics</i>, 127(1), 137-197.</b></p>

<p>Dec. 18, Tuesday</p>	<p>Board of Directors II  Board structure and consequences  Independent directors  Sarbanes-Oxley compliance</p> <p>Reading:  MM Chapter 3  LT Part I  Adams and Ferreira (2007), "A Theory of Friendly Boards," <i>Journal of Finance</i>, 62(1), 217-250.  <b>Masulis and Mobbs (2011), "Are All Inside Directors the Same? Evidence from the External Directorship Market," <i>Journal of Finance</i>, 66(3), 823-872.</b></p>
<p>Dec. 21, Friday</p>	<p>Executive Incentives I  Executive compensation  Theory of financial contracting</p> <p>Reading:  MM Chapter 4  LT Part IV  <b>Kaplan and Rauh (2009), "Wall Street and Main Street: What Contributes to the Rise in the Highest Incomes?" <i>Review of Financial Studies</i>, 23(3), 1004-1050.</b></p>
<p>Dec. 25, Tuesday</p>	<p>Executive Incentives II  Managerial ownership and firm performance</p> <p>Reading:  MM Chapter 4  LT Part IV  <b>Kim and Lu (2011), "CEO Ownership, External Governance, and Risk-Taking," <i>Journal of Financial Economics</i>, 102(2), 272-292.</b>  <b>Kim and Ouimet (2014), "Broad-Based Employee Stock Ownership: Motives and Outcomes," <i>Journal of Finance</i>, 69(3), 1273-1319.</b></p>
<p>Dec. 26, Wednesday (Make-up for the class on Jan. 4)</p>	<p>Creditors  Institutional lenders as corporate governance  Credit rating agencies</p> <p>Auditors</p> <p>Reading:  MM Chapter 3  LT Part II</p>

Dec. 28, Friday	<p>International corporate governance  Law and corporate governance  Cross-country difference vs. firm-level difference  Cross-border investment by foreign investors  Investor protection and home bias</p> <p>Reading:  MM Chapter 5  <b>Leuz, Lins, and Warnock (2008), "Do Foreigners Invest Less in Poorly Governed Firms?" <i>Review of Financial Studies</i>, 23(1), 3245-3285.</b>  <b>Reese and Weisbach (2002), "Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings," <i>Journal of Financial Economics</i>, 66(1), 65-104.</b></p>
Jan. 2, Wednesday (Make-up for the class on Jan. 1)	<p>Corporate Citizenship  Stakeholder view of the firm  International aspects of corporate citizenship  Corporate social responsibility and stakeholder value maximization</p> <p>Reading:  <b>Deng, Kang, and Low (2014), "Corporate Social Responsibility and Stakeholder Value Maximization: Evidence from Mergers," <i>Journal of Financial Economics</i>, 110(1), 87-109.</b></p>
Jan. 9, Wednesday (Make-up for the class on Jan. 8)	<p><b>Case Study:</b>  <b>Baosteel Group: Governance with Chinese Characteristics</b></p>
Jan. 11, Friday	<p><b>Assignment due:</b> Project 2  Presentation: Project 2 Report</p>
Jan. 15, Tuesday	<p>Presentation: Project 2 Report</p>

Note: The highlighted materials will be assigned for class presentation.