



# FIN 534

## Corporate Governance

### Module 4, 2021-2022

#### Course Information

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**Instructor: DuckKi (John) Cho**

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Office Hour: Mondays & Thursdays 15:30-16:30; Wednesdays 15:00-16:00 (or by appointment via email)

**Teaching Assistant: TBA**

Phone:

Email:

**Classes:**

Lectures: Mondays & Thursdays 13:30-15:20

Venue: PHBS Building, Room XXX

**Course Website:**

Search "[FIN534] Corporate Governance (2021-2022 M4)" from PHBS Course Management System (CMS): [cms.phbs.pku.edu.cn](https://cms.phbs.pku.edu.cn). The enrolment code will be announced in class.

All students must register into CMS because the course materials will be distributed through the course website.

Note: Please enter your name in ENGLISH when you register on CMS because the system does not recognize Chinese characters.

## 1. Course Description

### 1.1 Context

**Course overview:**

This course will teach the fundamental theories and practice of corporate governance. This course covers the history of the corporation, boards 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 and mergers and acquisitions on governance, ethical issues such as conflicts of interest and insider trading, international corporate governance, and policy developments likely to impact the corporation. Class will be a mix of lecture, case and topic discussion.

**Prerequisites:**

The course presumes that students have taken basic courses in accounting, economics, finance and econometrics before taking this course. 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 information will be posted on the course web page.

**Required Text:** *Corporate Governance* by Monks and Minow, 2011, New York: John Wiley & Sons, 5th edition.

**Reference Text:** *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences* by Larcker and Tayan, 2011

**Reference Text:** *Corporate Governance* by Kim, Nofsinger, and Mohr, 2010, Prentice Hall, 3rd edition.

## 2. Learning Outcomes

### 2.1 Intended Learning Objectives / Outcomes

Learning Goals	Objectives/Outcomes	Assessment
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.	√

## **2.2 Course specific objectives**

## **2.3 Assessment/Grading Details**

<b>Assessment task (tentative)</b>	<b>Weighting</b>
Mid-term Exam	100
Final Research Proposal*	60
Proposal Presentation*	30
Homework	30
Class participation	30
Total	250

### **\*Final Research Proposal / Presentation:**

Each student should submit a research proposal on a topic selected in consultation with the instructor (no more than 15 pages – details will be announced later) by the deadline. The paper is to be an original work prepared for this class (potentially being developed later as a thesis).

## **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**

<b>Week</b>	<b>Topic (tentative)</b>
<b>1-2</b>	<b>Introduction of corporate governance</b>

	<p>The role and purpose of the corporation  Stakeholders of the firm  Theoretical aspects of corporate governance  Agency theory and separation of ownership and control  Corporate Governance Mechanism  International Corporate Governance  Seven Myths of Corporate Governance</p> <p><u>Reading List</u>  Hart and Zingales (2017), Companies Should Maximize Shareholder Welfare Not Market Value, <i>Journal of Law, Finance, and Accounting</i>  Bebchuk and Weisbach (2010), The State of Corporate Governance Research, <i>Review of Financial Studies</i>  Larker and Tayan (2011), Seven Myths of Corporate Governance  Shleifer and Vishny (1997), A Survey of Corporate Governance, <i>Journal of Finance</i></p>
<p><b>2-3</b></p>	<p><b>Executive Compensation (I)</b></p> <p>Overview and structure of executive compensation  Principal-agent problem  Optimal contracting theory  Stock price / accounting-based compensation: stock option, restricted stock, etc.  Limitations of compensation design  Pay-performance sensitivity</p> <p><u>Reading List</u>  (optional) Lazear and Rosen (1981), Rank-Order Tournaments as Optimum Labor Contracts, <i>Journal of Political Economy</i></p>
<p><b>3-4</b></p>	<p><b>Executive Compensation (II)</b></p> <p>Executive ownership and agency costs  Managerial ownership and firm performance  Endogeneity issues in empirical research  Why has CEO pay increased so much?</p> <p><u>Reading List</u>  Kim and Lu (2011), CEO Ownership, External Governance, and Risk-taking, <i>Journal of Financial Economics</i>  Kim and Ouimet (2014), Broad-Based Employee Stock Ownership: Motives and Outcomes, <i>Journal of Finance</i>  Gabaix and Landier (2008), Why has CEO Pay Increased So Much, <i>Quarterly Journal of Economics</i>  Kaplan, S. N., and J. Rauh (2009), Wall Street and Main Street: What Contributes to the Rise in the Highest Incomes?, <i>Review of Financial Studies</i>  Roberts and Whited (2013), Endogeneity in Empirical Corporate Finance, Chapter 7, <i>Handbook of the Economics of Finance</i>  de Chaisemartin and D'Haultfoeuille (2022), Two-Way Fixed Effects and Differences-in-Differences with Heterogeneous Treatment Effects: A Survey, <i>NBER Working Paper</i></p>
<p><b>4-5</b></p>	<p><b>Boards of Directors</b></p> <p>Director and board structure  Who are they? Role, fiduciary duties and responsibilities  Board structure, firm value, executive compensation</p>

	<p>Independent director  Selection, compensation, and removal  Executive turnover  Sarbanes-Oxley Compliance</p> <p><u>Reading List</u>  Adams and Ferreira (2007), A Theory of Friendly Boards, <i>Journal of Finance</i>  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>  Hermalin and Weisbach (1998), Endogenously Chosen Boards of Directors and Their Monitoring of Management, <i>American Economic Review</i>  Masulis and Mobbs (2011), Are All Inside Directors the Same, <i>Journal of Finance</i>  Yermack (1996), Higher Market Valuation for Firms with a Small Board of Directors, <i>Journal of Financial Economics</i>  Coles, Daniel, and Naveen (2008), Boards: Does One Size Fit All?, <i>Journal of Financial Economics</i>  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>  Guernsey, Guo, Liu, and Serfling (2022). Classified Boards: Endangered Species or Hidden in Plain Sight?, <i>Working Paper</i>  Lin, Schmid, and Xuan (2018), Employee Representation and Financial Leverage, <i>Journal of Financial Economics</i></p>
<p><b>5-6</b></p>	<p><b>Controlling Shareholders</b></p> <p>Controlling-minority shareholder structure  Dual-class stock, corporate pyramids, or cross-holdings  The Emergence of Corporate Pyramids in China  Internal capital markets (tentative)  Family-owned firms and governance  Decoupling of economic and voting Ownership  Borrowing shares / equity swap  Empty voting / Hidden ownership</p> <p><u>Reading List</u>  Bertrand, Mehta, and Mullainathan (2002), Ferreting Out Tunneling: An Application to Indian Business Groups, <i>Quarterly Journal of Economics</i>  Almeida and Wolfenzon (2006), A Theory of Pyramidal Ownership and Family Business Groups, <i>Journal of Finance</i>  Bebchuk, Kraakman and Triantis (2000), Stock Pyramids, Cross-Ownership, and Dual Class Equity: The Creation and Agency Costs of Separating Control from Cash-Flow Rights, A Chapter in <i>Concentrated Corporate Ownership</i>  Hu and Black (2007), Hedge funds, insiders, and the decoupling of economic and voting ownership: Empty voting and hidden ownership, <i>Journal of Corporate Finance</i>  Stein (1997), Internal Capital Markets and the Competition for Corporate Resources, <i>Journal of Finance</i></p>
<p><b>6-7</b></p>	<p><b>Auditors and Creditors</b></p> <p>Debt as a disciplinary mechanism  Accountants and Auditors  Institutional lenders as corporate monitors  Credit rating agencies  Creditor right index</p> <p><u>Reading List</u></p>

	<p>Jensen (1986), Agency Cost of Free Cash Flow, Corporate Finance and Takeovers, <i>American Economic Review</i></p> <p>Nini, Smith, and Sufi (2012), Creditor Control Rights, Corporate Governance, and Firm Value, <i>Review of Financial Studies</i></p>
<b>7-8</b>	<p><b>International Corporate Governance</b></p> <p>Law and Corporate Governance  Cross-Country comparison  Cross-country difference vs. Firm-level difference  Cross-Border investment by foreign investors  Investor protection and home bias  Country case study: China</p> <p><u>Reading List</u>  Leuz, Lins and Warnock (2008), Do Foreigners Invest Less in Poorly Governed Firms?, <i>Review of Financial Studies</i>  Reese and Weisbach, (2002) Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings”, <i>Journal Financial Economics</i></p> <p><b>Midterm Exam (13:30 – 15:20, June 16)</b></p>
<b>8-9</b>	<p><b>Corporate Citizenship</b></p> <p>Stakeholder view of the firm  Governance and stakeholder theory  International aspects of corporate citizenship  CSR and Stakeholder Value Maximization</p> <p><u>Case Study</u>  Public Outrage Over Factory Conditions Spurs Labor Deal, NYTimes, 2013  For Pepsi, a Business Decision With Social Benefit, NYTimes, 2011</p> <p><u>Reading List</u>  Deng, Kang and Low (2014), Corporate Social Responsibility and Stakeholder Value Maximization: Evidence from Mergers, <i>Journal of Financial Economics</i></p> <p><b>Final research proposal DUE (June 27)</b></p> <p><b>Proposal presentations (June 23, 27) Mandatory Attendance</b></p>

#### 4. Miscellaneous

I strongly encourage you to ask questions or make comments during lectures and student presentations. Your participation will enrich our learning environment, and you will benefit a lot from it. If you have special needs to reach me outside the lectures or regular office hours, you may email me. I will try to respond to your email in two business days. Please send me a reminder email if you do not get my response within two business days. When you email me, please prefix the course code [FIN534] to the subject header for better visibility.