



北京大學  
汇丰商学院

Peking University HSBC Business School

# FIN 534

## Corporate Governance

### Module 1, 2019-2020

#### Course Information

---

**Instructor: DuckKi (John) Cho**

Office: PHBS Building, Room 751

Email: duckki.cho@phbs.pku.edu.cn

Office Hour: Tuesday 14:00-15:00 (or by appointment via email)

**Teaching Assistant: TBA**

Phone:

Email:

**Classes:**

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

Venue: PHBS Building, Room 319

## 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

| Assessment task (tentative) | Weighting |
|-----------------------------|-----------|
| Mid-term Exam               | 120       |
| Final Research Proposal*    | 60        |
| Proposal Presentation       | 20        |
| Homework                    | 30        |
| Class participation         | 20        |
| Total                       | 250       |

**\*Final Research Proposal:**

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.

**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**

| Week | Topic (tentative)   |
|------|---|
| 1-2  | <p><b>Introduction of corporate governance</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The role and purpose of the corporation</li> <li><input type="checkbox"/> Stakeholders of the firm</li> <li><input type="checkbox"/> Theoretical aspects of corporate governance</li> <li><input type="checkbox"/> Agency theory and separation of ownership and control</li> <li><input type="checkbox"/> Corporate Governance Mechanism</li> <li><input type="checkbox"/> International Corporate Governance</li> <li><input type="checkbox"/> Seven Myths of Corporate Governance</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Hart and Zingales, Companies Should Maximize Shareholder Welfare Not Market Value, 2017, Journal of Law, Finance, and Accounting</li> <li><input type="checkbox"/> Bebchuk and Weisbach (2010), The State of Corporate Governance Research, 2010 Review of Financial Studies</li> <li><input type="checkbox"/> Larker and Tayan (2011), Seven Myths of Corporate Governance</li> <li><input type="checkbox"/> Shleifer and Vishny (1997), A Survey of Corporate Governance, Journal of Finance</li> </ul> |
| 2-3  | <b>Executive Compensation (I)</b>   |

|            |   |
|------------|---|
|            | <ul style="list-style-type: none"> <li><input type="checkbox"/> Overview and structure of executive compensation</li> <li><input type="checkbox"/> Principal-agent problem</li> <li><input type="checkbox"/> Optimal contracting theory</li> <li><input type="checkbox"/> Stock price / accounting-based compensation: stock option, restricted stock, etc.</li> <li><input type="checkbox"/> Limitations of compensation design</li> <li><input type="checkbox"/> Pay-performance sensitivity</li> </ul> <p><u>Reading List</u><br/> (optional) <input type="checkbox"/> Lazear and Rosen (1981), Rank-Order Tournaments as Optimum Labor Contracts, Journal of Political Economy</p>  |
| <b>3-4</b> | <b>Executive Compensation (II)</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Executive ownership and agency costs</li> <li><input type="checkbox"/> Managerial ownership and firm performance</li> <li><input type="checkbox"/> Endogeneity issues in empirical research</li> <li><input type="checkbox"/> Why has CEO pay increased so much?</li> </ul> <p><u>Reading List</u><br/> <input type="checkbox"/> Kim and Lu (2011), CEO Ownership, External Governance, and Risk-taking, Journal of Financial Economics<br/> <input type="checkbox"/> Kim and Ouimet (2014), Broad-Based Employee Stock Ownership: Motives and Outcomes, Journal of Finance<br/> <input type="checkbox"/> Gabaix and Landier (2008), Why has CEO Pay Increased So Much, Quarterly Journal of Economics<br/> <input type="checkbox"/> Kaplan, S. N., and J. Rauh. (2009), Wall Street and Main Street: What Contributes to the Rise in the Highest Incomes? Review of Financial Studies<br/> <input type="checkbox"/> Roberts and Whited (2013), Endogeneity in Empirical Corporate Finance, Chapter 7, Handbook of the Economics of Finance</p>  |
| <b>4-5</b> | <b>Boards of Directors</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Director and board structure</li> <li><input type="checkbox"/> Who are they? Role, fiduciary duties and responsibilities</li> <li><input type="checkbox"/> Board structure, firm value, executive compensation</li> <li><input type="checkbox"/> Independent director</li> <li><input type="checkbox"/> Selection, compensation, and removal</li> <li><input type="checkbox"/> Executive turnover (tentative)</li> <li><input type="checkbox"/> Sarbanes-Oxley Compliance</li> </ul> <p><u>Reading List</u><br/> <input type="checkbox"/> Adams and Ferreira (2007), A Theory of Friendly Boards, Journal of Finance<br/> <input type="checkbox"/> Adams, Hermalin, and Weisbach (2010), The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey, Journal of Economic Literature<br/> <input type="checkbox"/> Hermalin and Weisbach (1998), Endogenously Chosen Boards of Directors and Their Monitoring of Management. American Economic Review<br/> <input type="checkbox"/> Masulis and Mobbs (2011), Are All Inside Directors the Same, Journal of Finance<br/> <input type="checkbox"/> Ahern, K. R., &amp; Dittmar, A. K. (2012). The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation. Quarterly Journal of Economics</p> |
| <b>5-6</b> | <b>Controlling Shareholders</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Controlling-minority shareholder structure</li> <li><input type="checkbox"/> Dual-class stock, corporate pyramids, or cross-holdings</li> </ul>   |

|                   |   |
|-------------------|---|
|                   | <ul style="list-style-type: none"> <li><input type="checkbox"/> The Emergence of Corporate Pyramids in China</li> <li><input type="checkbox"/> Internal capital markets (tentative)</li> <li><input type="checkbox"/> Family-owned firms and governance</li> <li><input type="checkbox"/> Decoupling of economic and voting Ownership</li> <li><input type="checkbox"/> Borrowing shares / equity swap</li> <li><input type="checkbox"/> Empty voting / Hidden ownership</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Bertrand, Mehta, and Mullainathan (2002), Ferreting Out Tunneling: An Application to Indian Business Groups (2002), Quarterly Journal of Economics</li> <li><input type="checkbox"/> Almeida and Wolfenzon (2006), A Theory of Pyramidal Ownership and Family Business Groups, Journal of Finance</li> <li><input type="checkbox"/> 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 Concentrated Corporate Ownership</li> <li><input type="checkbox"/> Hu and Black (2007), Hedge funds, insiders, and the decoupling of economic and voting ownership: Empty voting and hidden ownership, Journal of Corporate Finance</li> <li><input type="checkbox"/> Stein (1997), Internal Capital Markets and the Competition for Corporate Resources, Journal of Finance</li> </ul> |
| <p><b>6-7</b></p> | <p><b>Auditors and Creditors</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Debt as a disciplinary mechanism</li> <li><input type="checkbox"/> Accountants and Auditors</li> <li><input type="checkbox"/> Institutional lenders as corporate monitors</li> <li><input type="checkbox"/> Credit rating agencies</li> <li><input type="checkbox"/> Creditor right index</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Jensen (1986), Agency Cost of Free Cash Flow, Corporate Finance and Takeovers, American Economic Review</li> <li><input type="checkbox"/> Nini, Smith, and Sufi (2012), Creditor Control Rights, Corporate Governance, and Firm Value, Review of Financial Studies</li> </ul> <p><b>MIDTERM (October 23)</b><br/> <b>No classes on October 22 and 25</b></p>   |
| <p><b>7-8</b></p> | <p><b>International Corporate Governance</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Law and Corporate Governance</li> <li><input type="checkbox"/> Cross-Country comparison</li> <li><input type="checkbox"/> Cross-country difference vs. Firm-level difference</li> <li><input type="checkbox"/> Cross-Border investment by foreign investors</li> <li><input type="checkbox"/> Investor protection and home bias</li> <li><input type="checkbox"/> Country case study: China</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Leuz, Lins and Warnock (2008), Do Foreigners Invest Less in Poorly Governed Firms?, Review of Financial Studies</li> <li><input type="checkbox"/> Reese and Weisbach, (2002) Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings”, Journal Financial Economics</li> </ul>   |
| <p><b>8-9</b></p> | <p><b>Corporate Citizenship</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Stakeholder view of the firm</li> </ul>   |

- Governance and stakeholder theory
- International aspects of corporate citizenship
- CSR and Stakeholder Value Maximization

Case Study

Public Outrage Over Factory Conditions Spurs Labor Deal, NYTimes, 2013  
For Pepsi, a Business Decision With Social Benefit, NYTimes, 2011

Reading List

Deng, Kang and Low (2014), Corporate Social Responsibility and Stakeholder Value Maximization: Evidence from Mergers", Journal of Financial Economics

**Final research proposal DUE (October 30)**

**Proposal presentations (November 1, 5, 8)**

**In-class presentation**