



FIN 536

Corporate Governance

Module III, 2019-2020

Course Information

Instructor: Di Li

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Classes:

Lectures: Tuesday & Friday, 13:30-15:20

Venue: Due to the outbreak of 2019-nCoV, the first lectures will be delivered remotely on DingTalk. After the situation is normalized, we will return to standard class meetings on the PHBS campus. The classroom will be announced by then.

Course Website:

PHBS Course Management System (CMS): cms.phbs.pku.edu.cn. After you log in, search and enrol into the course "Corporate Governance (2019-20M3)" using the code "CG20M3". **All students must register** into CMS because the course assignments will be distributed and submitted through the course website.

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

DingTalk applications will be also used to manage course materials, announcements, and class activities. Students must familiarize themselves with these applications.

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, and other useful materials will be posted on the course web page and/or distributed through the DingTalk applications.

Reference Texts:

Corporate Governance, by Robert Monks and Nell Minow. John Wiley & Sons, 5th 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, 2nd ed.

Corporate Governance: Principles, Policies, and Practices, by Bob Tricker. Oxford University Press, 3rd 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. Due to the uncertainties caused by the 2019-nCoV, some of the arrangements and score scheme may be subject to change.

Exam	40%
Project 1	10%
Project 2	30%
In-class team assignments	10%
Class attendance & participation	10%
Total	100%

2.5 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. Important Class Policies

3.1 Class Attendance and Absence Allowance

Class attendance is required. However, students are granted TWO discretionary absences for reasons such as job interview and emergencies. Additional absences must be approved by the instructor in advance and otherwise will be subject to penalty. Students without unauthorized absences will earn five points for class attendance. Each unauthorized absence will result in a deduction of two points from the class attendance points and the reduction continues from other parts of the course grade if the attendance points have been used up. Students with five or more unauthorized absences will be automatically dropped from the class. The application for additional absences must be documented (e.g., doctor's notes), and the approval is at the instructor's discretion. Students who miss a class are responsible themselves to make up the missed materials and to get in-class announcements from peer classmates.

It is important to be punctual and students should arrive on time. At the beginning of the class, the teaching assistant will administer the registration of class roll. The roll will be collected by the instructor five minutes after the class begins. Being late and missing the class roll registration will be treated as an unauthorized absence. No make-up roll registration will be allowed.

Students must remain in the classroom throughout the class time. Early exits must be approved by the instructor. The instructor will randomly re-check attendance. An unauthorized early exit will be treated as an unauthorized absence.

The above attendance policy applies during the normal class meetings and will be

waived during the online (DingTalk) course sessions.

3.2 Team Activities and Evaluation

There are two projects and a few in-class assignments that are to be completed in teams. At the beginning of the module, students will be randomly assigned into different teams. Each team will have five students (or fewer). Every student must contribute to the team works fairly and sufficiently. To prevent free-riding, if a student feels that some teammate fails to contribute enough, he/she can submit a claim to the instructor. The instructor will examine the issue and adjust the teamwork grades of the accused student based on the severity of the problem if the accusation is affirmed.

3.3 Class Participation and Cold-Call Policy

Students should actively participate in class activities such as Q&A, problem solving, discussion, and presentation, etc. To motivate participation, the instructor will make cold calls randomly. A student who is called but fails to meaningfully participate will be penalized with a reduction of one point per occurrence from the grade. Volunteers are highly encouraged and will be awarded (up to five points for active class participation).

3.4 Others

No cell phone is allowed in the classroom (they must be turned off or muted). Students should avoid small chats with adjacent classmates unless the instructor calls for a discussion.

4. How to Excel in the Class

This course is very intensive. A student who wishes to excel in the class should follow the advices provided below:

- A. Review class materials from earlier prerequisite courses such as economics, accounting, and finance.
- B. Preview class notes before arriving in the classroom. Normally, class notes will be posted on the course management website one day prior to the class.
- C. Be concentrated and actively participate in activities (e.g., problem solving, discussion, and presentations) in class.
- D. Read the assigned materials.
- E. DO NOT FREERIDE others. A significant portion of the course grade comes from team works. Therefore, it is crucial to contribute fairly and sufficiently in your team. If a student is complained about and deemed free riding, his/her grades for team works will be adjusted in accordance with the severity of the problem.
- F. Ask questions whenever they arise. Take advantage of the office hours offered by the instructor and the teaching assistant. Do not wait and accumulate the problems.

5. 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. **Please expect schedule and arrangement changes due to the development of the 2019-nCoV situation.**

Date	Topics
Feb. 18, Tuesday	<p>Introduction of the course</p> <p>Introduction of corporate governance I</p> <ul style="list-style-type: none"> The role and purpose of corporate governance Theoretical aspects of corporate governance Agency theory and separation of ownership and control <p>Reading:</p> <p>MM Chapter 1</p>
Feb. 21, Friday	<p>Introduction of corporate governance II</p> <ul style="list-style-type: none"> Corporate governance mechanisms International corporate governance <p>Seven myths of corporate governance</p> <p>Reading:</p> <p>MM Chapter 1</p> <p>Bebchuk and Weisbach (2010), "The State of Corporate Governance Research," <i>Review of Financial Studies</i>, 23(3), 939-961.</p> <p>Shleifer and Vishny (1997), "A Survey of Corporate Governance," <i>Journal of Finance</i>, 52(2), 737-783.</p> <p>Larcker and Tayan, "Seven Myths of Corporate Governance," Stanford University working paper.</p>
Feb. 25, Tuesday	<p>Shareholders and Shareholder Activism I</p> <ul style="list-style-type: none"> Ownership structure and firm performance The role of institutional investors Proxy fights and takeover bids <p>Case Study: Chrysler Takeover Attempt</p> <p>Reading:</p> <p>MM Chapter 2</p>
Feb. 28, Friday	<p>Shareholders and Shareholder Activism II</p> <ul style="list-style-type: none"> Hedge fund activism <p>Market for corporate control</p> <ul style="list-style-type: none"> The threat of takeover G-index and E-index <p>Reading:</p> <p>MM Chapter 2</p> <p>Brav et al. (2008), "Hedge Fund Activism, Corporate Governance and Firm Performance," <i>Journal of Finance</i>, 63(4), 1729-1775.</p> <p>Gantchev, Gredil, and Jotikasthira (2019), "Governance under the Gun: Spillover Effects of Hedge Fund Activism," <i>Review of Finance</i>, 23(6), 1031-1068.</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>Brav et al. (2017), "How Does Hedge Fund Activism Reshape Corporate Innovation?" <i>Journal of Financial Economics</i> forthcoming.</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>
March. 3, Tuesday	<p>Controlling Shareholders I</p> <p>Controlling-minority shareholder structure</p> <p>Dual-class stock, corporate pyramids, or cross-holdings</p> <p>Family-owned firms and governance</p> <p>Reading:</p> <p>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>
March 6, Friday	<p>Controlling Shareholders II</p> <p>Reading:</p> <p>MM Chapter 2</p> <p>Bertrand, Mehta, and Mullainathan (2002), "Ferretting out Tunneling: An Application to Indian Business Groups," <i>Quarterly Journal of Economics</i>, 117(1), 121-148.</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>
March 10, Tuesday	<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>Assignment due: Project 1</p>
March 13, Friday	Midterm exam
March 17, Tuesday	<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>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.</p>
March 20, Friday	<p>Board of Directors II</p> <p>Board structure and consequences</p> <p>Independent directors</p> <p>Sarbanes-Oxley compliance</p> <p>Reading:</p> <p>MM Chapter 3</p> <p>LT Part I</p> <p>Adams and Ferreira (2007), "A Theory of Friendly Boards," <i>Journal of Finance</i>, 62(1), 217-250.</p> <p>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.</p>
March 24, Tuesday	<p>Executive Incentives I</p> <p>Executive compensation</p> <p>Theory of financial contracting</p> <p>Reading:</p> <p>MM Chapter 4</p> <p>LT Part IV</p> <p>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.</p>
March 27, Friday	<p>Executive Incentives II</p> <p>Managerial ownership and firm performance</p> <p>Reading:</p> <p>MM Chapter 4</p> <p>LT Part IV</p> <p>Kim and Lu (2011), "CEO Ownership, External Governance, and Risk-Taking," <i>Journal of Financial Economics</i>, 102(2), 272-292.</p> <p>Kim and Ouimet (2014), "Broad-Based Employee Stock Ownership: Motives and Outcomes," <i>Journal of Finance</i>, 69(3), 1273-1319.</p>
March 31, Tuesday	<p>Creditors</p> <p>Institutional lenders as corporate governance</p> <p>Credit rating agencies</p> <p>Auditors</p> <p>Reading:</p>

	MM Chapter 3 LT Part II
April 3, 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 Leuz, Lins, and Warnock (2008), "Do Foreigners Invest Less in Poorly Governed Firms?" <i>Review of Financial Studies</i>, 23(1), 3245-3285. 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.</p>
April 7, Tuesday	<p>Corporate Citizenship Stakeholder view of the firm International aspects of corporate citizenship Corporate social responsibility and stakeholder value maximization</p> <p>Reading: 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.</p>
April 10, Friday	<p>Case Study: Baosteel Group: Governance with Chinese Characteristics</p>
April 14, Tuesday	<p>Assignment due: Project 2 Presentation: Project 2 Report</p>
April 17, Friday	<p>Presentation: Project 2 Report</p>

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