Peking University HSBC Business School

FIN 534
Corporate Governance
Module 1, 2022-2023

Course Information

Instructor: DuckKi (John) Cho
Office: PHBS Building, Room 751
Email: duckki.cho@phbs.pku.edu.cn
Office Hour: Tuesdays & Fridays 10:30-12:30 or by appointment via email

Teaching Assistant: TBA
Email:
Office Hour:

Classes:
Lectures: Tuesdays & Fridays 13:30-15:20
Venue: PHBS Building, Room TBA

Course Website:
Search "[FIN534] Corporate Governance (2022-2023 M1)" from PHBS Course Management System (CMS): 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 practices 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. The class will be a mix of lecture, case, and topic discussion.

Prerequisites:

The course presumes that students have taken introductory 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 Books: (i) *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences* by Larcker and Tayan, 2011;

(ii) *Corporate Governance* by Kim, Nofsinger, and Mohr, 2010, Prentice Hall, 3rd edition;

(iii) *The Wisdom of Finance* by Mihir A. Desai, 2017, Houghton Mifflin Harcourt

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*	50
Proposal Presentation*	30
Homework	30
Class Participation/Attendance	20
Total	250

***Final Research Proposal / Presentation:**
<u>**Each group of two students**</u> (tentative) should submit a research proposal on a topic **related to the course** (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**. Each group will briefly present the proposal (up to 7 mins – subject to change).

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	**Introduction of corporate governance**

	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 <u>Reading List</u> Hart and Zingales (2017), Companies Should Maximize Shareholder Welfare Not Market Value, *Journal of Law, Finance, and Accounting* Bebchuk and Weisbach (2010), The State of Corporate Governance Research, *Review of Financial Studies* Larker and Tayan (2011), Seven Myths of Corporate Governance Shleifer and Vishny (1997), A Survey of Corporate Governance, *Journal of Finance*
2-3	**Executive Compensation (I)** 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 <u>Reading List</u> (optional) Lazear and Rosen (1981), Rank-Order Tournaments as Optimum Labor Contracts, *Journal of Political Economy*
3-4	**Executive Compensation (II)** Executive ownership and agency costs Managerial ownership and firm performance Endogeneity issues in empirical research Why has CEO pay increased so much? <u>Reading List</u> Kim and Lu (2011), CEO Ownership, External Governance, and Risk-taking, *Journal of Financial Economics* Kim and Ouimet (2014), Broad-Based Employee Stock Ownership: Motives and Outcomes, *Journal of Finance* Gabaix and Landier (2008), Why Has CEO Pay Increased So Much, *Quarterly Journal of Economics* 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* Roberts and Whited (2013), Endogeneity in Empirical Corporate Finance, Chapter 7, *Handbook of the Economics of Finance* de Chaisemartin and D'Haultfoeuille (2022), Two-Way Fixed Effects and Differences-in-Differences with Heterogeneous Treatment Effects: A Survey, *NBER Working Paper*
4-5	**Boards of Directors** Director and board structure Who are they? Role, fiduciary duties and responsibilities Board structure, firm value, executive compensation

	Independent director Selection, compensation, and removal Executive turnover Sarbanes-Oxley Compliance <u>Reading List</u> Adams and Ferreira (2007), A Theory of Friendly Boards, *Journal of Finance* Adams, Hermalin, and Weisbach (2010), The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey, *Journal of Economic Literature* Hermalin and Weisbach (1998), Endogenously Chosen Boards of Directors and Their Monitoring of Management, *American Economic Review* Masulis and Mobbs (2011), Are All Inside Directors the Same, *Journal of Finance* Yermack (1996), Higher Market Valuation for Firms with a Small Board of Directors, *Journal of Financial Economics* Coles, Daniel, and Naveen (2008), Boards: Does One Size Fit All?, *Journal of Financial Economics* Ahern and Dittmar (2012). The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation. *Quarterly Journal of Economics* Guernsey, Guo, Liu, and Serfling (2022). Classified Boards: Endangered Species or Hidden in Plain Sight?, *Working Paper* Lin, Schmid, and Xuan (2018), Employee Representation and Financial Leverage, *Journal of Financial Economics*
5-6	**Controlling Shareholders** 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 <u>Reading List</u> Bertrand, Mehta, and Mullainathan (2002), Ferreting Out Tunneling: An Application to Indian Business Groups, *Quarterly Journal of Economics* Almeida and Wolfenzon (2006), A Theory of Pyramidal Ownership and Family Business Groups, *Journal of Finance* 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* Hu and Black (2007), Hedge funds, insiders, and the decoupling of economic and voting ownership: Empty voting and hidden ownership, *Journal of Corporate Finance* Stein (1997), Internal Capital Markets and the Competition for Corporate Resources, *Journal of Finance*
6-7	**Auditors and Creditors** Debt as a disciplinary mechanism Accountants and Auditors Institutional lenders as corporate monitors Credit rating agencies Creditor right index <u>Reading List</u>

	Jensen (1986), Agency Cost of Free Cash Flow, Corporate Finance and Takeovers, *American Economic Review* Nini, Smith, and Sufi (2012), Creditor Control Rights, Corporate Governance, and Firm Value, *Review of Financial Studies*
7-8	**International Corporate Governance** 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 Reading List Leuz, Lins and Warnock (2008), Do Foreigners Invest Less in Poorly Governed Firms?, *Review of Financial Studies* Reese and Weisbach, (2002) Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings", *Journal Financial Economics* **Midterm Exam (13:30 – 15:20, Oct 25)**
8-9	**Corporate Citizenship** Stakeholder view of the firm 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 (23:59, Nov 4)** **Proposal presentations (Nov 1, 4) Mandatory Attendance**

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.