

**Peking University**  
**HSBC Business School**

**Course Syllabus: Corporate Governance**

2014/2015 Second Module, Fall Semester (November 13 – January 16)

**Instructor:** Seungjoon Oh Ph.D., Assistant Professor of Finance

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**Course Hours and Classroom:** Mon & Thur 1:30-3:20pm, 319

**Office Hours:** Monday 4:00pm-5:00pm (or by appointment via email)

**Course Description:**

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.

**Class Material:**

- Lecture notes, assignments, cases and other useful information will be posted on the course web page.
- **Reference Text:** *Corporate Governance* by Monks, Robert A.G. and Nell Minow *New York: John Wiley & Sons, 2011, 5th edition. ISBN 978-0-470-97259-5.*
- **Reference Text:** *The Theory of Corporate Finance*, Jean Tirole, Princeton University Press
- **Reference Text:** *Corporate Governance* by Kenneth Kim, John R. Nofsinger, Derek J Mohr, 2010 3/E, Prentice Hall

**Prerequisites:**

The course presumes that students have taken basic courses in accounting, economics, finance and econometrics before taking this course. Students are required to have completed at least one of the following courses: “*Corporate Finance*” or “*Theoretical Foundations in Corporate Finance*”.

**Grading:** Student grades will be based on the following formula

- Mid-term Exam (12/11): 100
- Final Research Proposal: 100
- Case study discussion questions: 30
- Class participation: 20

**Honor Code and Academic Conduct:**

As a student you are responsible for upholding academic integrity standards for this course. It is very important for you to be aware of the consequences of cheating, fabrication, facilitation, and plagiarism. For more information on the Code of Academic Integrity or the Student Honor Council, please visit: [http://dean.pku.edu.cn/2011xssc/kswgclff\\_jyb.htm](http://dean.pku.edu.cn/2011xssc/kswgclff_jyb.htm)

**Final Paper:**

Each student should submit a research proposal on a topic selected in consultation with the instructor (no more than 10 double-spaced pages) by the final class session. The paper is to be an original work prepared for this class. Prospective paper topics may also be discussed in the class and distributed by your instructor.

**Course Outline and Schedule:**

Week	Topic
1-2	<p data-bbox="293 1318 808 1350"><b>Introduction of corporate governance</b></p> <ul data-bbox="345 1388 1101 1509" style="list-style-type: none"><li>• The role and purpose of the corporation</li><li>• Theoretical aspects of corporate governance</li><li>• Agency theory and separation of ownership and control</li></ul> <p data-bbox="293 1547 461 1579"><u>Reading List</u></p> <ul data-bbox="345 1617 1386 1864" style="list-style-type: none"><li>• Jean Tirole Chapter 1</li><li>• Tirole (2001), Corporate Governance, Econometrica</li><li>• Bebchuk and Weisbach (2010), The State of Corporate Governance Research, 2010 Review of Financial Studies</li><li>• Larker and Tayan (2011), Seven Myths of Corporate Governance</li><li>• <i>Additional Reference:</i> Shleifer and Vishny (1997), A Survey of Corporate</li></ul>

	<p>Governance, Journal of Finance</p> <ul style="list-style-type: none"> <li>• <i>Additional Reference:</i> Hart (1995), Corporate Governance: Some Theory and Implications, Economic Journal</li> </ul>
2-3	<p><b>Shareholders and Shareholder Activism</b></p> <ul style="list-style-type: none"> <li>• Ownership structure and firm performance</li> <li>• Market for corporate control</li> <li>• Proxy fights and takeover bids</li> <li>• Hedge fund activism</li> <li>• The role of institutional investors</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li>• Jean Tirole Chapter 9.2, 10.1 and 10.2</li> <li>• <i>Additional Reference:</i> Grossman and Hart (1980), Takeover Bids, the Free-Rider Problem, and the Theory of the Corporation, The Bell Journal of Economics</li> <li>• Shleifer and Vishny (1986), Large Shareholders and Corporate Control, Journal of Political Economy</li> <li>• Scharfstein (1988), The Disciplinary Role of Takeovers, Review of Economic Studies</li> <li>• Brav, A.,W. Jiang, R. S. Thomas, and F. Partnoy (2008) Hedge Fund Activism, Corporate Governance, and Firm Performance, Journal of Finance</li> <li>• <i>Additional Reference:</i> Cain, Davidoff and Mckeen (2014), Do Takeover Laws Matter? Evidence from 45 Years of Hostile Takeovers, Working Paper</li> <li>• <i>Additional Reference:</i> Greenwood, Robin, and Michael Schor (2009) Investor activism and takeovers, Journal of Financial Economics</li> <li>• <i>Additional Reference:</i> Klein, A., and Zur, E. (2009) Entrepreneurial shareholder activism: Hedge funds and other private investors, Journal of Finance</li> <li>• <i>Additional Reference:</i> Brav, et al. (2014), Shareholder Power and Corporate Innovation: Evidence from Hedge Fund Activism, Working Paper</li> <li>• Case Study: TBD</li> </ul>
3-4	<p><b>Boards of Directors</b></p> <ul style="list-style-type: none"> <li>• Director and board structure</li> <li>• Who are they? Role, fiduciary duties and responsibilities</li> <li>• Independent director</li> <li>• Sarbanes-Oxley Compliance</li> </ul>

	<p><u>Reading List</u></p> <ul style="list-style-type: none"> <li>• Adams and Ferreira (2007), A Theory of Friendly Boards, Journal of Finance</li> <li>• Adams, Hermalin, and Weisbach (2010), The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey, Journal of Economic Literature</li> <li>• Hermalin and Weisbach (1998), Endogenously Chosen Boards of Directors and Their Monitoring of Management. American Economic Review</li> <li>• <i>Additional Reference:</i> Milton and Raviv (2008), A Theory of Board Control and Size, Review of Financial Studies</li> <li>• <i>Additional Reference:</i> Ahern, K. R., &amp; Dittmar, A. K. (2012). The changing of the boards: The impact on firm valuation of mandated female board representation. The Quarterly Journal of Economics, 127(1), 137-197.</li> <li>• Case Study: TBD</li> </ul>
4-5	<p><b>Management</b></p> <ul style="list-style-type: none"> <li>• Management ownership and firm performance</li> <li>• Theory of Financial Contracting</li> <li>• Executive compensation</li> <li>• Stock options</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li>• Himmelberg, C., R. G. Hubbard and D. Palia (1999), Understanding the Determinants of Managerial Ownership and the Link between Ownership and Performance”, Journal of Financial Economics, 53, 353-384</li> <li>• Kaplan, S. N., and J. Rauh. (2009) Wall Street and Main Street: What Contributes to the Rise in the Highest Incomes? Review of</li> <li>• Gabaix, X., and A. Landier. (2008). Why Has CEO Pay Increased So Much? Quarterly Journal of Economics</li> <li>• Hartzell, Jay C. and Laura T. Starks (2003), “Institutional investors and executive compensation”, Journal of Finance 58, 2351-2374</li> <li>• <i>Additional Reference:</i> Shleifer and Vishny (1988), Management Ownership and Market Valuation, Journal of Financial Economics</li> <li>• <i>Additional Reference:</i> Kaplan, S. (2008) Are U.S. CEOs Overpaid? Academy of Management Perspectives</li> <li>• <i>Additional Reference:</i> 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</li> </ul>

	<ul style="list-style-type: none"> <li>• <i>Additional Reference:</i> Li and Sun (2014), Managerial Ownership and Firm Performance: Evidence From the 2003 Tax Cut, Working Paper</li> <li>• Case study: TBD</li> </ul>
5-6	<p><b>Controlling Shareholders</b></p> <ul style="list-style-type: none"> <li>• Opportunism by the controlling shareholder</li> <li>• Dual-class stock, corporate pyramids, or cross-holdings</li> <li>• Family-owned firms and governance</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li>• Jean Tirole Chapter 10.3</li> <li>• Lucian Bebchuk, Reinier Kraakman and George Triantis (2000), Stock Pyramids, Cross-Ownership, and Dual Class Equity: The Creation and Agency Costs of Separating Control From Cash-Flow Rights, Concentrated Corporate Ownership</li> <li>• Bertrand, M., P. Mehta, and S. Mullainathan (2002), Ferreting Out Tunneling: An Application to Indian Business Groups, Quarterly Journal of Economics</li> <li>• Gompers, P. A., J. Ishii, and A. Metrick. (2003) Corporate Governance and Equity Prices. Quarterly Journal of Economics 118:107–155</li> <li>• La Porta, R., F. Lopez-de-Silanes, and A. Shleifer. (1999) Corporate Ownership around the World. Journal of Finance 54:471–517.</li> <li>• <i>Additional Reference:</i> Bebchuk, L. A., and A. Hamdani. (2002) Vigorous Race or Leisurely Walk? Yale Law Journal 112:553–615.</li> <li>• Case Study: TBD</li> </ul>
6-7	<p><b>International Corporate Governance</b></p> <ul style="list-style-type: none"> <li>• Cross-Country comparison</li> <li>• Cross-country difference vs. Firm-level difference</li> <li>• Cross-Border investment by foreign investors</li> <li>• Investor protection and home bias</li> <li>• Country case study: China</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li>• Aggarwal, R., I. Erel, R. M. Stulz, and R. Williamson. (2008), Differences in Governance Practices between U.S. and Foreign Firms: Measurement, Causes, and Consequences. Review of Financial Studies</li> <li>• La Porta et al. (1997) Legal Determinants of External Finance, Journal of</li> </ul>

	<p>Finance 52:1131–50.</p> <ul style="list-style-type: none"> <li>• La Porta et al. (1998) Law and Finance, Journal of Political Economy 107:1113–55.</li> <li>• La Porta et al. (2000) Agency Problems and Dividend Policies around the World. Journal of Finance 55:1–33.</li> <li>• La Porta et al. (2002) Investor Protection and Corporate Valuation. Journal of Finance 57:1147–70.</li> <li>• Leuz, C., K. V. Lins, and F. E. Warnock. (2008) Do Foreigners Invest Less in Poorly Governed Firms? Review of Financial Studies</li> <li>• Case Study: TBD</li> </ul>
7-8	<p><b>Governance, Political Economy, and Banking</b></p> <ul style="list-style-type: none"> <li>• Political economy models of corporate governance arrangements</li> <li>• Governance, Compensation and Bank Risk-Taking</li> </ul> <p><u>Reading List</u></p> <ul style="list-style-type: none"> <li>• Bebchuk, L. A., and Z. Neeman. (2009), Investor Protection and Interest Group Politics. Review of Financial Studies</li> <li>• Faleye and Krishnan (2014), Risky Lending: Does Bank Corporate Governance Matter?, Working Paper</li> <li>• Behr et al. (2014), Financial Incentives and Loan Officer Behavior, Working Paper</li> <li>• Case Study: TBD</li> </ul>
8-9	<p><b>Student Proposal Presentation</b></p>

**Additional Reference:**

- Governance Codes
  - Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury Report) 1992 <http://www.ecgi.org/codes/documents/cadbury.pdf>
  - CalPERS Global Principles of Accountable Corporate Governance, 2011 <http://www.calpers-governance.org/docs-sof/principles/2011-11-14-global-principles-of-accountable-corgov.pdf>
  - Report of the NYSE Commission on Corporate Governance, September 23, 2010 [http://www.nyx.com/sites/www.nyx.com/files/final\\_ccg\\_report\\_09-23-10.pdf](http://www.nyx.com/sites/www.nyx.com/files/final_ccg_report_09-23-10.pdf)

- Landmark Legal Cases
  - Revlon, Inc. v. Macandrews & Forbes Holdings, Inc., 506 A.2d 173 (Del. 1986).  
[http://scholar.google.com/scholar\\_case?q=506+A.2d+173&hl=en&as\\_sdt=2,5&case=16019965849248080126&scilh=0](http://scholar.google.com/scholar_case?q=506+A.2d+173&hl=en&as_sdt=2,5&case=16019965849248080126&scilh=0)
  - Paramount Communications, Inc. v. Time, Inc., 571 A.2d 1140 (Del. 1989).  
<http://www.casebriefs.com/blog/law/corporations/corporations-keyed-to-klein/mergers-acquisitions-and-takeovers/paramount-communications-inc-v-time-inc/>
  - The Walt Disney Company Derivative Litigation, In re Walt Disney Co. Derivative Litig., 907 A.2d 693 (Del. Ch. 2005).  
<http://courts.delaware.gov/opinions/download.aspx?ID=64510>