

Corporate Governance

Module 9, 2019-20

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Course description

This course provides an introduction to Corporate Governance from an economic perspective. Shleifer and Vishny (1997) give a simple definition in their survey: “Corporate Governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” We mostly limit ourselves to this so-called shareholder view of corporate governance but discuss also the broader stakeholder view that includes employees, suppliers, creditors and society as a whole as stakeholders in a firm.

The need for corporate governance stems from conflicts of interests between shareholders and managers (agency conflict of type I) or between large and small shareholders (agency conflict of type II). To mitigate such agency costs, a variety of mechanisms can be used: monitoring by a board of directors, reputation by managers and large shareholders, incentive contracts for top managers, the threat of takeover, and government regulation to protect investors, among others. We study each of these mechanisms of corporate governance in detail.

Classes will be a mix of lecture, questions and answers, case discussions, and short presentations. Most of the topics are discussed in an international context, but we will make reference to the Russian reality and present some data on boards of directors and ownership structure in Russian companies.

Course requirements, grading, and attendance policies

Requirements: Corporate Finance

The course grade is composed of five subgrades with different weights.

1. Class participation (15%). This course requires quite a bit of reading. We will discuss the topics based on the readings that I indicate before each class. I expect active participation from each student. I might also assign papers from the reading list whose main ideas one student should present in 5-10 minutes. This will develop a special type of presentation skill – summarizing a potentially complex issue in a very short time. Obviously, a necessary condition for active class participation is your presence.
2. Class presentation and submission of a data search and analysis assignment (10%).
3. Class presentation and write-up of one out of two case studies (20%). I will take into account your preferences for one of the two cases but reserve the right to assign a case if the distribution is too unequal.
4. Critical discussion of the case study presentation of another group that I will assign to you 1-2 days before the presentation in class (10%). This will be the case that you did *not* choose under point 3. Apart from providing your comments in class, you need to submit a one-page essay or at least four slides.
5. Final exam (45%).

Presentations and discussions (points 2 to 4) are evaluated individually or for groups of two persons. In order to pass the course you need to pass two thresholds: You need to get a minimum of 35% of points in the exam and 50% for the course in total.

Class attendance is highly recommended to pass the exam. It is strictly required on those days when your group is scheduled for a presentation or discussion.

Course material

Required textbooks and material

David F. Larcker, Brian Tayan, Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences (2nd edition), Pearson FT Press 2016.

Papers indicated as required readings in the section "Course contents".

Additional material

See references in the section "Course contents".

Course contents

Week	Topic and readings
1	<p>Introduction</p> <ul style="list-style-type: none"> - What is Corporate Governance? - The history of corporate governance in developed and developing countries - Agency problems of type I (shareholders vs managers) and II (large vs small shareholders) <p>Required readings:</p> <ul style="list-style-type: none"> • LT Ch. 1-2 • Clacher, Iain, David Hillier, and Patrick McColgan (2010), Agency Theory: Incomplete Contracting and Ownership Structure, in: Corporate Governance – A Synthesis of Theory, Research and Practice, edited by H. Kent Baker and Ronald Anderson, Wiley, 141-156. • Shleifer Andrei and Robert Vishny (1997), A Survey of Corporate Governance, The Journal of Finance, 52(2), 737-783. • Allen, Franklin (2005), Corporate Governance in Emerging Economies, Oxford Review of Economic Policy, 21(2), 164-177. <p>Recommended readings:</p> <ul style="list-style-type: none"> • Morck, Randall K., and Lloyd Steier (2005), The Global History of Corporate Governance – An Introduction, in: A History of Corporate Governance around the World: Family Business Groups to Professional Managers, edited by Randall K. Morck. Link • Morck, Randall (2011), Finance and Governance in Developing Economies, <i>Annual Review of Financial Economics</i>, 3, 375–406.
2	<p>Boards of directors (1)</p> <ul style="list-style-type: none"> - Duties and liabilities - Advice and monitoring - Selection <p>Required readings:</p> <ul style="list-style-type: none"> • LT Ch. 3-4

	<ul style="list-style-type: none"> Adams, Renée B., Benjamin E. Hermalin, and Michael S. 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>Recommended readings:</p> <ul style="list-style-type: none"> Adams, Renée B., and Daniel Ferreira (2007), A Theory of Friendly Boards, <i>The Journal of Finance</i>, 62(1), 217-250. <p>Presentation: Three country studies (US, Italy, China), based on</p> <ul style="list-style-type: none"> LT, Ch.2 Hilt, Eric (2014), History of American Corporate Governance: Law, Institutions, and Politics, <i>Annual Review of Financial Economics</i>, 6, 1–21 Jiang, Fuxiu, and Kenneth A. Kim (2015), Corporate governance in China: A modern perspective, <i>Journal of Corporate Finance</i>, 32, 190–216. Aganin, Alexander, and Paolo Volpin (2008), The History of Corporate Ownership in Italy, in: A History of Corporate Governance around the World: Family Business Groups to Professional Managers, edited by Randall K. Morck. Link
3	<p>Boards of directors (2)</p> <ul style="list-style-type: none"> - Size and structure - Board independence <p>Required readings:</p> <ul style="list-style-type: none"> LT Ch. 5 Knyazeva, A., D. Knyazeva, and R. Masulis (2013), The Supply of Corporate Directors and Board Independence, <i>Review of Financial Studies</i>, 26, 1561-1605. <p>Presentations:</p> <ul style="list-style-type: none"> - Mini case: Role of Boards in Conglomerates – The Case of AFK Sistema, based on: Dolgopyatova, Tatiana, Alexander Libman, and Andrei Yakovlev (2017), The Unintended Benefits of Empowering Boards in Conglomerates: The Case Study of AFK-Sistema, Working Paper Link - Data search: The board composition of selected Russian companies
4	<p>CEOs</p> <ul style="list-style-type: none"> - CEO characteristics, corporate decisions and firm performance - CEO succession and CEO turnover - Executive compensation <p>Required readings:</p> <ul style="list-style-type: none"> LT Ch. 7-8 Frydman, Carola, and Dirk Jenter (2010), CEO Compensation, <i>Annual Review of Financial Economics</i>, 2, 75–102. <p>Recommended readings:</p> <ul style="list-style-type: none"> Bertrand, Marianne (2009), CEOs, <i>Annual Review of Financial Economics</i>, 1, 121–49. <p>Presentation of case study “Parmalat SpA: An Impressive Milking System”, based on IMD case #183.</p>
5	<p>Owners</p> <ul style="list-style-type: none"> - The role of ownership structure - Managerial ownership

	<ul style="list-style-type: none"> - Institutional owners - Shareholder voting (majority, cumulative voting) - Large shareholders - Family ownership - State capitalism - Cash flow rights vs control rights - Computation of ultimate ownership shares; Power indices. <p>Required readings:</p> <ul style="list-style-type: none"> • LT Ch. 9, 12 • Almeida, Heitor, Sang Yong Park, Marti G. Subrahmanyam, and Daniel Wolfenzon (2011), The structure and formation of business groups: Evidence from Korean chaebols, <i>Journal of Financial Economics</i>, 99, 447–475. • Chernykh, Lucy (2008), Ultimate ownership and control in Russia, <i>Journal of Financial Economics</i>, 88, 169–192. <p>Recommended readings:</p> <ul style="list-style-type: none"> • Edmans, Alex (2014), Blockholders and Corporate Governance, <i>Annual Review of Financial Economics</i>, 6, 23–50. • Villalonga, Belén, Raphael Amit, María-Andrea Trujillo, and Alexander Guzmán (2016), Governance of Family Firms, <i>Annual Review of Financial Economics</i>, 7, 635–54. • Mussacchio, Aldo, Sergio G. Lazzarini, and Ruth V. Aguilera (2015), New Varieties of State Capitalism: Strategic And Governance Implications, <i>The Academy of Management Perspectives</i>, 29(1), 115–131.
6	<p>The Market for Corporate Control</p> <ul style="list-style-type: none"> - Stock Market Evaluation of M&A - Anti-takeover protections <p>Required readings:</p> <ul style="list-style-type: none"> • LT Ch. 11 • Stegemoller, Mike (2008), Corporate Takeovers and Restructurings, in: Corporate Governance – A Synthesis of Theory, Research and Practice, edited by H. Kent Baker and Ronald Anderson, Wiley, 517-533. <p>Recommended readings:</p> <ul style="list-style-type: none"> • Eckbo, B. Espen (2014), Corporate Takeovers and Economic Efficiency, <i>Annual Review of Financial Economics</i>, 6, 51–74 • Straska, Miroslava, and H. Gregory Waller (2014), Antitakeover Provisions and Shareholder Wealth: A Survey of the Literature, <i>Journal of Financial and Quantitative Analysis</i>, 49(4), 933–956. <p>Presentation: Data search of ownership structures of selected Russian companies</p>
7	<p>Measurement and Regulation of Corporate Governance</p> <ul style="list-style-type: none"> - Investor protection at the country level - Corporate governance indices - Corporate Governance standards and requirements for stock market listings <p>Required readings:</p> <ul style="list-style-type: none"> • LT Ch. 13

- La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer (2013), Law and Finance After a Decade of Research, Handbook of the Economics of Finance, edited by George M. Constantinides, Milton Harris and Rene M. Stulz, Volume 2, Part A, 425-491.

Recommended readings:

- Aggarwal, Reena, Isil Erel, René Stulz and Rohan Williamson (2009), Differences in Governance Practices between U. S. and Foreign Firms: Measurement, Causes, and Consequences, *The Review of Financial Studies*, 22 (8), 3131-3169.

Presentation of case study “Executive Compensation at General Electric”, based on Harvard Business School case #9-105-072

(LT=Larcker and Tayan, see section on Course material below)

The schedule and readings are preliminary. Assignments and readings (except for the Parmalat and GE case studies) can be changed during the course.

Description of course methodology

The course will be taught by a combination of lectures, case discussions, and short presentations of papers, mini-cases and relevant data.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics are not tolerated at NES.