

Finance 798
Corporate Governance
Spring 2007-2008
Room: DPC TBA
Mondays 5:45 p.m. - 9:00 p.m.

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Office Hours: By Appointment

Course Prescription: Corporate governance deals with how the suppliers of capital—both debt and equity—ensure that corporate managers make efficient use of that capital and provide investors with a return commensurate with the risk of the investment. In this class, we will learn how the value of a firm depends on corporate governance practices, and how these practices differ around the world. Better governance lowers the cost of capital and leads to greater financial development and higher economic growth. Consequently, countries are searching for the set of governance practices, rules and regulations that will most effectively promote private-sector development.

In the U.S., U.K. and Japan, the governance debate has focused on the ability of corporate managers to expropriate wealth from dispersed shareholders—the principal-agent conflict between owners and managers. Outside of these countries, ownership is much more concentrated so that the governance debate focuses on the ability of controlling shareholders to expropriate wealth from minority shareholders.

This course will provide students with an understanding of how corporate governance practices differ across countries by examining the key mechanisms that influence a country's corporate governance structure, including legal protection, regulatory protection, the market for corporate control, large block holders of both debt and equity capital, executive compensation policies, the board of directors and financial disclosure/transparency.

Goals of the Course: The goals of this course are:

- i) to provide an understanding of corporate governance, including what constituted strong governance and how governance affects firm value; and
- ii) to examine how differences in corporate governance can explain observed differences in financial development across countries.

Learning Outcomes: Upon successful completion of this course, it is expected that the student will be able to:

- i) Define corporate governance and explain why it is important.
- ii) Explain how corporate governance differs across countries.
- iii) Explain and apply the current theories about corporate governance to real-world situations.
- iv) Explain how researchers test theories about corporate governance.

Required Readings: We will be reading approximately 20 articles from academic journals as our primary sources of information for the class. Articles will be posted to Blackboard in Acrobat pdf format for you to download.

Required Newspaper: *The Wall Street Journal*

You should sign up at <http://subscribe.wsj.com/quarter>, where you simply follow the instructions to subscribe for the quarter for \$19.95. Please note that your subscription entitles you not only to a copy of the paper version of the WSJ but also to the electronic WSJ, which includes the Americas, Asian and European editions of the WSJ. In addition, it is recommended that you check the websites of major international papers such as the Financial Times (www.ft.com) for additional information about overseas events in the world of finance.

Course Format: Our class meetings will be conducted in a seminar format. During each weekly class, we will discuss two articles. Students will be randomly assigned to a study group, and each group will be responsible for leading the discussion of two articles during the quarter. Each of these leadership roles will account for 10% of the group members' final grade. It is highly recommended that groups prepare PowerPoint slides and/or hard-copy hand-outs for distribution to the rest of the class. Before discussing the articles, we will begin each class by reviewing what has happened in the real world of corporate finance, with specific references to stories from the previous week's five editions of the Wall Street Journal (and other financial publications that you might have read, such as the Financial Times) and how they relate to corporate governance.

Homework Assignments: Each student should prepare a set of "talking points" of one-to-two pages for each of the two articles assigned for that week, except for articles where the student's group is leading class discussion. There will be 16 sets of talking points for each student; each will be graded on a four-point scale, and together they will account for 24% of your grade.

Assessment: In addition to the two ten-point presentations and 24 points for talking points, class participation will account for 30 points of your final grade, 3 points per class. The remaining 26 points of your grade will come from a take-home final exam.

Course Material on the Web: I will be placing course material on the web. You will be able to access the material through Blackboard. To access the course material, you will first have to create an account on Blackboard and enroll in the course titled "FIN_798_301_2007-2008_SPRING". Please check the "Announcements" section (on Blackboard) periodically and the day before class for information related to the course.

**Corporate Governance
Course Reading Assignments**

3/31/08 Week 1: Introduction and review of survey articles on corporate governance

Shleifer, A., Vishny, R., 1997. A survey of corporate governance. *The Journal of Finance* 52, 737–783.

OECD. 1999. OECD Principles of Corporate Governance. OECD

4/07/08 Week 2: Agency Costs and Ownership Structure

Jensen, M., Meckling, W. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3, 305-360.

Ang, J., Cole, R., Lin, J. 2000. Agency costs and ownership structure. *The Journal of Finance* 55, 81-106.

4/14/08 Week 3: Law and Finance

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., 1998. Law and finance. *Journal of Political Economy* 106, 1113–1155.

Djankov, S., McLeish, C., Shleifer, A. 2007. Private credit in 129 countries. *Journal of Financial Economics* 84, 299-329.

4/21/08 Week 4: Executive Compensation

Murphy, K. 1999. Executive compensation. *Handbook of Labor Economics*.

Core, D., Guay, W., Larcker, D. 2003. Executive equity compensation and incentives: A survey. *Economic Policy Review of the Federal Reserve Bank of New York* April, 27-50.

4/28/08 Week 5: Large Block Holders

Holderness, C. 2003. A survey of blockholders and corporate control. *Economic Review of the Federal Reserve Bank of New York* April, 51-64

Holderness, C. 2008. The myth of diffuse ownership in the United States. *Review of Financial Studies*.

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Course Reading Assignments (cont.)

5/05/08 Week 6: Review of work on international corporate governance

Denis, D., McConnell, J. 2003. International corporate governance. *Journal of Financial & Quantitative Analysis* 36, 1-36.

Djankov, S., Murrell, P. 2002. Enterprise restructuring in transition: A quantitative survey. *Journal of Economic Literature* 40, 739-792.

5/12/08 Week 7: The Board of Directors

Hermalin, B., Weisback, M. 2000. Boards of directors as an endogenously determined institution: A survey of the economic literature. *Economic Policy Review of the Federal Reserve Bank of New York* April, 7-26.

Bebchuk, L., Cohen, A. 2005. The cost of entrenched boards. *Journal of Financial Economics* 78, 409-433.

5/19/08 Week 8: The Market for Partial and Complete Corporate Control

Bethel, J., Leibeskind, J., Opler, T., 1998. Block share purchases and corporate performance. *The Journal of Finance* 53, 605-634

Bruner, R. 2002. Does M&A Pay? A survey of evidence for the decision-maker. *Journal of Applied Finance* 48-68.

5/26/08: Memorial Day – No Class

6/02/08 Week 9: Anti-Takeover Measures

Gompers, Ishii, Metrick, A. 2003. Corporate governance and equity prices. *Quarterly Journal of Economics* 48 107-155.

Bebchuk, L., Cohen, A., Ferrell, A. 2004. What matters in corporate governance? Working paper, Harvard University Olin Center Discussion Paper No. 491.

6/09/09 Week 10: Corporate Governance in Russia and China

Black, B., Kraakman, R., Tarassova, A., 2000. Russian privatization and corporate governance: What went wrong? *Stanford Law Review* 52, 1731-1808.

Berkman, H., Cole, R., Fu, L. 2008. Improving corporate governance where the State is the controlling block holder. Working Paper.