

Stanford Graduate School of Business

An International Comparison of Corporate Governance Systems (POLECON 386)

Fall Quarter Monday and Thursday 2004, 1:15 – 3:00
Lecture hall S 151

Eva M. Meyersson Milgrom
Visiting Professor
Littlefield L353, (650) 724 7986

emilgrom@stanford.edu

Faculty A. Lea Richards
Littlefield L372, (650) 723-6310

Richardson_Lea@gsb.stanford.edu

An International Comparison of Corporate Governance Systems

1. Course Description

This course *compares* legal/political/economic systems of corporate governance systems found around the world. The *focus* of this comparison is on how corporate governance systems influence performance, including both individual firm performance and the allocation of capital within a country. This is of vital interest to various professional groups, such as investment bankers, venture capitalists, and consultants. We will discuss the legal and institutional contexts, seeking answers to questions like these: Why are there so few publicly traded companies in Italy? Why is it so difficult to generate financial capital in Russia? And, most importantly, How are national economic growth and corporate governance related?

We compare corporate governance systems in various countries, studying both how systems do work and how they might work better, and asking such questions as: Why are takeovers and mergers more prevalent in the US and England than in other countries? How has this changed over time? Why are large controlling shareholders less prevalent in the US and England than in Germany? Why are top Japanese executives paid less than their American counterparts? How should executives and board of directors be remunerated given the political and economic framework in the country? How should boards of directors and executive teams be composed? How do CEOs decide about the mix of debt and equity finance and how does the mix affect their discretion and control over cash flow?

2. Teaching style

The course consists of lectures; guest lectures; individual student presentations; and team-based case assignments. The cases focus on countries from Asia, Europe and Africa. Guest lectures will be a Venture Capitalist from the Infotech Industry, Chinese and Indian Entrepreneurs, **Representatives from CIA controlled start-ups**, a Bankruptcy Attorney from Wells Fargo, and a Compensation Consultant for CEOs.

3. Grading

The purpose of grading is twofold. One is an evaluation of your academic performance. The second is to encourage active discussion in the classroom, so that everyone achieves a deeper understanding of corporate governance systems. Thus your grade for the course will be based on the following components:

Individual Assignments and Participation in Class 40%

Case Group Projects 25%

Final Individual case write-up 35%

4. Term Case Write-up

Each student writes a final case write up. The write up, 5-7 pages double space, is due the last session of class.

5. Group-Based Case Assignment

Group based assignment, 1-2 pages double-spaced, is due the same day as the corresponding class. Case assignments are group-based. The student teams, formed during the first couple of sessions, will consist of 3-4 students. All students are expected to be prepared to present case solutions in class.

6. Individual Class Assignments

Each student will also be responsible for presenting articles in class. The articles can be chosen from the list of recommended readings and are due on the corresponding session.

7. Other Administrative Details

If you have to miss a class during the semester, please let me know in advance, if possible.

If you miss a class, please find out from your classmates what material was covered, what additional assignments were made and what items may have been distributed in class. Missed assignments will be managed at the instructor's discretion.

As a courtesy to your classmates and to me, please be in class on time.

I will make sure that everybody is involved in the class discussion. If you prefer not to be called upon during some class session, please advise me in advance.

No laptops will be necessary during the sessions. There will be posted lecture notes on the course website before the sessions.

8. Office hours

I will be available after class every lecture day. My office hours are Mondays at 3:15-4:00 and by appointment.

9. Schedule and Reading List

The assigned readings from academic books and journals are to be browsed for ideas, rather than read for technical details.

Required Readings, syllabus and the Matrix are found in the Course Reader and can be purchased in the Stanford Bookstore.

All Recommended Readings, revised syllabus are on reserve at Jackson Library

The Political Economy of Corporate Governance

Session 1: Monday 27 Sept. Intro and the Political Economy of Corporate Governance

A presentation of the syllabus, administrative details and the Matrix of the Structure of the Course.

Corporate Governance Does it Matter?

Recommended Readings:

"Corporate Ownership Around the World", R. La Porta, F. Lopez-De-Silanes, and A. Shleifer, *The Journal of Finance* Vol. 14 No. 2, April 1999 pp. 471-517.

Information Wants to be Free Chapter 4 from *Reinventing the Bazaar* by John McMillan 2002 NY: Norton Publishing Company.

Chapters 1, 4 in *Corporate governance: Theoretical and Empirical Perspectives*. Edited by Xavier Vives, Cambridge University Press 2000

Session 2: Thursday 30 Sept. Financial Markets, Transparency, and Competition: A Case Analysis

Required Readings:

"Transparent Markets: Promoting Public Values through Private Enterprise," Stanford Graduate School of Business Case IB –4807/11/03.

"Legal Determinants of External Finance", R. La Porta, F. Lopez-De Silanes, and A. Shleifer, *Journal of Finance* Vol. 12, No. 3, July 1997, pp.1131-1150.

Recommended Readings:

Chapters 2, 3 in *Corporate governance: Theoretical and Empirical Perspectives*. Edited by Xavier Vives, Cambridge University Press 2000

Session 3: Monday 4 October. The Rule of Law and The Rule of Man

Required Readings:

"Dispute Prevention Without Courts in Vietnam" John McMillan and Chris Woodruff, *Journal of Law, Economics and Organization*, Vol. 15, No. 3, 1999 pp. 637-658.

Recommended Readings:

"Political Preconditions to Separating Ownership from Corporate Control", Mark J. Roe, *Stanford Law Review*, December 2000, pp.539-606.

"The Politics of Corporate Governance Regulation," by Peter Gourevitch, *Vol 112, May 2003 No 7. The Yale Law Journal*

"The Great Reversals: The Politics of Financial Development in the 20th Century," R. Rajan and L. Zingales, NBER Working Paper No. 8178, 2000 pp. 1-58.

Session 4: Thursday 7 October HBS Case 9-700-049 "The Japanese Financial System: From Postwar to the New Millennium." And HBS Case 2000 N-9-700-135. "The German Financial System."
(all cases presented in class are required readings)

Disciplinary devices

Session 5: Monday 11 October. Geographic Cross Listing, Stock Markets the importance of IPOs. Special Student Assignments.

Required Readings:

Reena Aggarwal, "Demutualization and Corporate Governance of Stock Exchanges", *Journal of Applied Corporate Finance* Vol. 15, No. 1, 2002.

Jonathan Macey, and Maureen O'Hara, "Globalization, Exchange Governance, and the Future of Exchanges", *Brookings-Wharton Papers on Financial Services*, 1999.

Recommended Readings:

Alfredo Mendiola, and Maureen O'Hara, "Taking Stock in Stock Markets: The Changing Governance of Exchanges", Cornell University Working Paper, 2004.

"The Geography of Equity Listing: Why Do Companies List Abroad?" M. Pagano. A. Röell, and J. Zechner, *Journal of Finance*, Vol. 57, No. 6, 2002, pp. 2651-2694

“Protections of Minority Shareholder Interests, Cross-listings in the United States, and Subsequent Equity Offerings.” W. A. Reese, Jr. and M. S. Weisbach, *Journal of Financial Economics*, Vol. 66, 2002 pp 65-104.

“Why Do Companies Go Public? An Empirical Analysis” by Marco Pagano, Fabio Panetta, and Luigi Zingales, *The Journal of finance* Vol. LIII No 1 Feb 1998.

Session 6: Thursday 14 October. Enron Collapse Case IMD 164 03052003 student preparation in advance.

Recommended readings:

The fall of Enron by P Healy and K Palepu in *Journal of Economic Perspectives* Vol. 17 No 2 Spring 2003 Pages 3-26.

Session 7: Monday 18 October Corruption: Regulatory or self-regulatory regimes?

Required Readings:

How to Subvert Democracy: Montesinos in Peru John McMillan and Pablo Zoido, Stanford University GSB Research Paper No 1851

“The Regulation of Entry.” S. Djankov, R. La Porta, F. Lopez de Silanes and A. Shliefer, *The Quarterly Journal of Economics*, Vol. 117, No. 1, 2002, pp. 1-39.

Recommended Readings:

The Causes of Corruption: a Cross National Study”, D. Treisman, *The Journal of Public Economics*, Vol 76, No. 3, June 2000, pp.399-457.

“Coase Versus the Coasians,” E.Glaeser, S.Johnson, and A. Shleifer, *The Quarterly Journal of Economics*, August 2001, pp. 853-899.

“Why Do Firms Hide? Bribes and Unofficial Activity After Communism by Simon Johnson, Daniel Kaufmann, John McMillan and Christopher Woodruff, *Journal of Public Economics*, Vol. 76, 2000 pp.495-520.

Session 8: Thursday 21 October. Newmont in Peru Case IB-51

Session 9: Monday 25 October. The Merger Wave as a Disciplinary Device

Required Readings:

Bengt Holmstrom and Steve Kaplan “Corporate Governance and Merger activity in the U.S.: Making Sense of the 1980s and 1990s,” *Journal of Economic Perspectives*, Vol. 15, No. 2, Spring 2001, pp. 121-144.

Recommended Readings:

“The State of U.S. Corporate Governance: What’s right and what’s wrong?” B. Holmström and S. Kaplan, NBER Working Paper 9613, April, 2003.

Session 10: Thursday 28 October “Mannesman AG”, HBS Case N9- 401-013

Session 11: Monday 1 November Ownership and private rent extraction—Homogeneity in interest.

Ownership as a disciplinary device

a. Ownership and homogeneity in interest:

Required Readings:

The Ownership of Enterprise by H. Hansmann, Chapters 3, 4, 10. The Belknap Press of Harvard University Press, Cambridge, Massachusetts 1996.

b..Ownership structure in different countries,

Required Readings:

“Corporate Ownership Around the World” R La Porta, F Lopez- De-Silanes and Andrei Shleifer *The Journal of Finance* Vol LIV NO.2 April 1999. same as above

Recommended Readings:

Becht Marco and Ekkehart Boehmer, “Voting control in German corporation in Control of Corporate Europe” ed by F. Barca, and M. Becht 2001 Chapter 5.

“Ownership and Voting Power in France” by L Block and E Kremp in Control of Corporate Europe ed by F. Barca, and M. Becht 2001 Chapter 4

c. Private rent extraction

Required Readings:

“Political Handshake” by Peter Hogfeldt Financial Times October 2003,

“Private Benefits of Control: an International Comparison,” Alexander Dyck and Luigi Zingales, *The Journal of Finance*, Vol. LIX No.2 April 2004, pp. 537-600.

Recommended Readings:

P Hogfeldt and Martin Holmen “Pyramidal Power” Mimeo 2004;

Marco Becht “European Corporate Governance: Trading off liquidity against control,” *European Economic Review* 43 1999 1071-1083.

Session 12: Thursday 4 November Venture Capitalists and arms-length control of investments. **Guest Speaker:** Andrew Verhalen Matrix Partners, Venture Capitalist Infotech

Session 13: Monday 8 November. Board Composition and Bankruptcy **Guest Speaker: David Garfield Wells Fargo Bankruptcy Chief Attorney**

What you need to know about board room composition: The case of independent board of directors and other indistinct concepts. Application of the System view on Corporate Governance as a System of components.: complements and value

Required Readings:

“Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature” Benjamin Hermalin and Michael S. Weisbach. In *Economic Policy Review* April 2003

“Why Do Distressed Companies Choose Delaware? Venue Choice and Court Experience in Bankruptcy”. K.M. and D.A. Skeel, Jr. Mimeo, September 2002.

Recommended Readings:

“The Core Fiduciary Duties of Outside Directors,” B. S. Black, *Asia Business Law Review*, July 2001, pp, 3-16.

“Shareholder Access to the Ballot.” L. A. Bebchuk, mimeo Harvard University Discussion Paper, July 2003

“Corporate Governance Proposals and Shareholder Activism: The Role of Institutional Investors,” G. Stuart and L. Starks, *Journal of Financial Economics* Vol. 57, No. 2, 2000 pp. 273 -305

Session 14: Thursday 11 November. HBS Case, “Governance at Metallgesellschaft (A)” 9-495-055

Session 15: Monday 15 November. Control and CEO Compensation

Required Readings:

“CEO Incentives it’s not How much you Pay, But How” 1990 Harvard Business Review.

“What you need to know about stock options” by Brian Hall Harvard Business Review

“Improving Executive Compensation” by L Bebchuk and Jesse Fried , reprint from TIAA-CREF’s Investment Forum June 2003.

Recommended Readings:

Bulow, Jeremy and John Shoven, “Accounting for Stock Options,” unpublished Stanford Working Paper

“Is there discretion in wage setting? A Test Using Take-Over legislation” by M Bertrand and S Mullainathan NBER WP 7952

Special Session 16: Thursday 18 November. HBS Case 9-494-048 “General Dynamics (A),” and HBS Case 9-498-028 “Lyondell Petrochemical Company.” An analytical teaching tool: a comparison of two cases, differences and similarities in two real world cases.“

Corporate Governance Around the World

Session 17: Monday 22 November State or Private Ownership? **Representative from In-q-tel.** Special Student assignments

Recommended Readings:

“Public versus Private Ownership: The Current State of the Debate,” M. M. Shirley and P. Walsh *The World Bank Report*, 2000 pp. 1-59.

“From State to Market: A Survey of Empirical Studies on Privatization,” W. Megginson and J. M. Netter *Journal of Economic Literature*, June 2001, pp. 321-389.

“State versus Private Ownership,” A. Shleifer. *Journal of Economic Perspectives*, Vol 12, No. 4 1998, pp.133-150.

Session 18: Monday 29 November HBS Case,” Casablanca Finance Group”, 9-700-063

Session 19: Thursday 2 December. Corporate Governance Institutions and Transition. **A Panel** of Scholars on India and China and Indian and Chinese business-men and women .

Required Readings:

“*Required literature:* and student preparation in advance article” by Yasheng Huang and Tarun Khanna,

“Can India Overtake China?” Foreign Policy July/August 2003

“Ferretting out tunneling: An Application to Indian Business Groups” by Marianne Bertrand, Paras Mehta, Sendhil Mullainathan, NBER working paper 7952.

Recommended Readings:

“Yingyi Qian How Reform” Worked in China 2001. mimeo University of California Berkeley

“Federalism With and Without Political Centralization: China versus Russia,” O. Blanchard and A. Shleifer. Mimeo, *IMF Staff Papers*, Vol 48, Special Issue, 2001.

“Engineering Growth: Business Group Structure and Firm Performance in China’s Transition Economy,” L. Keister, *American Journal of Sociology* vol. 10, 1998, pp. 404-440.

"The Process of China's Market Transition (1978-1998): The Evolutionary, Historical, and Comparative Perspectives," Y. Qian, *Journal of Institutional and Theoretical Economics*, Vol. 156, 2000, pp.151-172.

"Law, Finance and Economic Growth in China," F Allen, J. Qian, and M. Qian, mimeo December 2002

End of Class

Final Case Write UP due last day of class

"PetroChina: International Corporate Governance with Chinese Characteristics," Center for Asian Business Cases No. HKU183, Feb. 15 2002.

â€¢ Corporate Governance and the Returns on Investment, Journal of Law and Economics, 2004. â€¢ The Effects of Insider Ownership on Investment Performance: An International Comparison, WP, University of Vienna, 2004. 2. â€¢ The agency problem â€¢ Measures of investment performance â€¢ The impact of institutions on.â€¢ Weak corporate governance systems allow managers to pursue their own goals at the shareholdersâ€™ expense. â€¢ Growth-oriented managers will over-invest and pay out less than the share-price-maximizing level of dividends. â€¢ Accordingly, many tests for the effectiveness of corporate governance in aligning managersâ€™ and shareholdersâ€™ interests have compared measures of performance like dividend payouts and Tobinâ€™s q that are related to investment decisions. 4. Corporate governance is something altogether different from the daily operational management activities enacted by a companyâ€™s executives. It is a system of.â€¢ Corporate Governance. A system of direction and control that dictates how a board of directors governs and oversees a company. Home â€¢ Resources â€¢ Knowledge â€¢ Other â€¢ Corporate Governance. What is Corporate Governance? Corporate governance is something altogether different from the daily operational management activities enacted by a companyâ€™s executives. It is a system of direction and control that dictates how a board of directorsBoard of DirectorsA board of directors is a panel of people elected to represent shareholders. Each has left its legacy in governance systems around the world. The Anglo Saxon model is important but just one of the 3 models we wish to examine. The other two we have described as the Latin model and the Ottoman model. We start by outlining the salient features of each. The Anglo Saxon model of governance. The Anglo Saxon model of governance is of course familiar to all readers of this book.â€¢ The abuses which have been revealed within this system of governance7 have exposed problems with the lack of separation of politics from governance. This has led to the suggestion that there should be a clear distinction between the two. Corporate governance has gained tremendous importance in recent years, due to the developments brought about through globalisation concerning the harmonisation of procedures and structures and through the emergence of global norms for corporate governance. One factor which is significantly affected by such governance is that of risk assessment and management. Good governance reduces risk and facilitates its management. This is the focus of this book. Introduction to Corporate Governance. Introduction.â€¢ References. Further reading. Self-test questions. Development of codes of governance and international comparisons. Introduction. Systems of governance. Developing a framework for corporate governance. Company management. References.