**Course Syllabus**

**“Reshaping” Corporate Governance**

**— How Does Governance Empower Firms’ High-Quality Long-term Sustainable Growth in New Era**

**Instructor: Professor Yao Lu**

**SEM, Tsinghua University**

Course Title (in English): “Reshaping” Corporate Governance — How Does Governance Empower Firms’ High-Quality Long-term Sustainable Growth in New Era

Course Title (in Chinese): 《“重塑”公司治理》

Prerequisite Courses: Principles of Economics, Corporate Strategy, Corporate Finance

Language of Instruction: □ Chinese □ Chinese + English (lessons instructed in English ≥50%) □ English

Language of Courseware: □ Chinese □ English

Instruction Method: □ in-class instruction □ in-class discussion □ case study □ literature reading □ computer operation □ class presentation by students

Assessment Method: □ in-class quiz □ oral presentation □ group discussion □ case study report □ final course report /thesis □ final exam □ practice report □ other (please specify)

Term: □ spring □ fall □ summer

Course Type: □ compulsory course □ KMC course

Applicable to: □ undergraduate students □ postgraduate students □ doctoral students □ □MBA □ EMBA □TIEMBA □ MCFO

**Instructor: Professor Yao Lu**

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Q&A (Office Hour): reservation required

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**Course Description**

**Leaning objectives and contents:**

Why can the capital market make capital available to fundraisers and help investors earn money? Why can a company make an investment and raise funds? All these are because of the corporate governance mechanism.

“Corporate Governance” is a guarantee of continuous and effective running of the capital market. With the development and globalization of the capital market, practitioners, decision makers and scholars pay more and more attentions to corporate governance issues. Viewing from the perspective of enterprises, the purpose of this course is to introduce how to establish a sound corporate governance system so as to alleviate the principal-agent problem, adapt to product market changes and technological development, and eventually improve a company’s operation efficiency and valuation in the capital market. Viewing from the perspective of investors, the purpose of this course is to teach participants how to analyze a potential investment target’s future operation and growth potential and make a right investment decision according to its corporate governance quality.

The course is comprised of nine modules, i.e. the principal-agent problem and basic corporate governance framework, ownership can corporate control right, investor relationship management, executive compensation and incentive mechanism, board of directors and board operation, external governance mechanisms, soft governance mechanisms, big data empirical evidence on corporate governance systems in US and China, and change and development trends of corporate governance mechanisms in the context of current transformation of digital economy. These modules, though interconnected, are relatively independent from each other.

This course does not only introduce basic theoretical knowledge and cutting-edge academic research conclusions on corporate governance, but also enables students to learn about some classic business cases, such as how companies like Google, Amazon, and others keep their technology leading in the world for a long time by motivating employees to innovate, why Steve Jobs was once expelled from Apple, even he made such a great contribution to Apple, why Masayoshi Son, the largest shareholder of Alibaba, is willing to waive the right to control Alibaba, and why the Rockefeller family can succeed in inheriting wealth for more than six generations. This course covers not only general and classic corporate governance theories, but also future change and development trends of corporate governance in the social context of transformation of digital economy. The ultimate goal of the course is to help participants get a comprehensive understanding of how corporate governance helps enterprises create and enhance value from both theoretical and practical perspectives, and contribute participants to become experts of capital market operation.

**Teaching Agenda**

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| **Order of Classes/ Date** | **Content of Teaching** | **Required Reading Materials** |
| Section 1 | * An introduction to the Course * Basic Concepts of the Principal-Agent Problem and Basic Framework of Corporate Governance Structure * Internal Corporate Governance Mechanism   + Ownership and Corporate Control Right | Lecture notes |
| Section 2 | * Internal Corporate Governance Mechanism * Ownership and Corporate Control Right | Lecture notes |
| Section 3 | * Internal Corporate Governance Mechanism   + Investor Relationship Management   + Executive Compensation and Incentive Mechanism | Lecture notes |
| Section 4 | * Internal Corporate Governance Mechanism   + Board of Directors and Its Operation * External Corporate Governance Mechanisms * Soft Corporate Governance Mechanisms | Lecture notes |
| Section 5 | * Big Data Empirical Evidence on Corporate Governance System * Change and Development Trends of Corporate Governance in the Context of Transformation of Digital Economy * Summary of the Course | Lecture notes |
| Section 6 | * In-class quiz |  |
| Section 7 | * Final case discussion |  |

**Required and Recommended Reading Materials**

* **Required reading materials: Lecture notes**
* Recommended text books (not required)
  + Corporate Governance, by John L. Colley, Jr., Jacqueline L. Doyle, George W. Logan, and Wallance Stettinius, Published by The McGraw-Hill Companies
  + Corporate Governance, by Christine A. Mallin, Published by Oxford University Press
  + Governance in the Digital Age: A Guide for the Modern Corporate Board Director, by Brian Stafford and Dottie Schindlinger, published by Wiley.
* Supplemental readings(not required). These articles can be download from <https://www.jstor.org/> or [www.ssrn.com](http://www.ssrn.com) for free.

1. General Reading:
   * Jensen, Michael C., 1986, Agency Cost of Free Cash Flow, Corporate Finance and Takeovers, *American Economic Review* 76, 323-329.
   * Shleifer, Andrei and Robert W. Vishey, 1997, A Survey of Corporate Governance, *Journal of Finance* LII, 737-738.
2. Impact of Corporate Governance Problem:
   * Stealing Corporate Resources and Enjoy Private Benefits of Control:
     + Evidence from Managerial Compensation
       - Jensen and Murphy, 1990, Performance pay and top management incentives, *Journal of Political Economy* 98, 225-264
       - Core, John E., Robter W. Holthausen, and David F. Larcker, 1999, Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, *Journal of Financial Economics* 51, 371-406.
       - Bertrand, Marianne and Sendhil Mullainathan, 2001, Are CEOs Reward for Luck? The One without Principals Are, *Quarterly Journal of Economics* 116, 901-932.
       - Morse, Adair, Vikram Nanda, and Amit Seru, 2008, Are Incentive Contracts Rigged by Powerful CEOs? Working Paper, Available at http://faculty.chicagobooth.edu/adair.morse/research/MorseNandaSeruCeo\_paper.pdf
     + Evidence from Tunneling
       - Bertrand, Marianne, Paras Mehta, and Sendhil Mullainathan, 2002, Ferreting out Tunneling: An Application to Indian Business Groups, *Quarterly Journal of Economics* 117, 121-148.
   * Enjoy Quiet Life:
     + Bertrand, Marianne and Sendhil Mullinathan, 2003, Enjoying the Quiet Life? Corporate Governance and Managerial Preferences, *Journal of Political Economy* 111, 1043-1075.
     + Cronqvist, Henrik, Fredrik Heyman, Mattias Nilsson, Helena Svaleryd, and Jonas Vlachos, 2009, Do entrenched managers pay their workers more? *Journal of Finance* 64, 309-340.
3. What Determines the Quality of Corporate Governance:
   * Managerial Ownership:
     + Demsetz, Harold and Kenneth Lehn, 1985, The Structure of Corporate Ownership: Causes and Consequences, *Journal of Political Economy* 93, 1155-1177.
     + Morck, Randall, Andrei Shleifer, and Robert W. Vishney, 1988, Management Ownership and Market Valuation: An Empirical Analysis, *Journal of Financial Economics* 20, 293-315
     + McConnell, John J. and Henri Servaes, 1990, Additional Evidence on Equity Ownership and Corporate Value, *Journal of Financial Economics* 27, 187-223
     + Himmelberg, Charles P. R. Glenn Hubbard, and Darius Palia, 1999, Understanding the Determinants of Managerial Ownership and the Link between Ownership and Performance, *Journal of Financial Economics* 53, 353-384
     + E. Han Kim and Yao Lu, 2011, “CEO ownership, external governance, and risk-taking”，*Journal of Financial Economics*,102 (2): Page272-292.
   * Effects of Board:
     + Adams, Renee B., Benjanmin E. Hermalin, and Michael S. Weisbach, 2010, The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey, Journal of Economic Literature 2010, 48:1, 57-107.
     + Hermalin, Benjamin E. and Michael S. Weisbach, 1988, The Determinants of Board Composition, *RAND Journal of Economics* 19, 589-606.
     + Hermalin, Benjamin E. and Michael S. Weisbach, 1998, Endogenously Chosen Boards of Directors and Their Monitoring of the CEO, *American Economic Review* 88, 96-118.
     + Hermalin, Benjamin E. and Michael S. Weisbach, 2003, Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature, *Economic Policy Review* 9, 7-26.
     + Kang, Shinwoo, E. Han Kim and Yao Lu, 2018, “Does independent directors’ CEO experience matter?” at *Review of Finance,* 22(3): Page 905-949.
   * External Monitoring from Institutional Investors and Voting Rights:
     + Gillan, Stuart L. and Laura T. Starks, 2000, Corporate Governance Proposals and Shareholder Activism: The Role of Institutional Investors, *Journal of Financial Economics* 57, 275-303.
     + Jay C. Hartzell and Laura T. Starks. 2003. Institutional Investors and Executive Compensation. *Journal of Finance* 58, 2351-2374.
     + Holderness, Clifford G., 2003, A Survey of Blockholdings and Corporate Control, *Economic Policy Review* 9, 51-64.
     + Davis, Gerald F. and E. Han Kim, 2007, Business Ties and Proxy Voting by Mutual Funds, *Journal of Financial Economics* 85, 552-570.
     + Cai, Jie, Jacqueline L. Carner, and Ralph A. Walking, 2009, Electing Directors, forthcoming *Journal of Finance*.
   * External Monitoring from Financial Institutes:
     + Jensen, Michael C. and Willian H. Meckling, 1976, Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure, *Journal of Financial Economics* 3, 305-360.
     + Berger, Ofek and Yermack, 1997, Managerial entrenchment and capital structure decisions, *Journal of Finance* 52, 1411-1438.
   * Pressures from Project Market Competition:
     + Maria Guadalupe and Francisco Perez-Gonzalez, 2007, The Impact of Product Market Competition on Private Benefits of Control, Working paper. Available at http://www.law.virginia.edu/pdf/olin/conf07/P%C3%A9rez-Gonz%C3%A1lez.pdf
     + Giroud, Xavier and Mueller, Holger M., 2009, Does Corporate Governance Matter in Competitive Industries? *Journal of Financial Economics*, forthcoming.
   * Pressures from Market of Corporate Control:
     + Bertrand, Marianne and Sendhil Mullinathan, 2003, Enjoying the Quiet Life? Corporate Governance and Managerial Preferences, *Journal of Political Economy* 111, 1043-1075. (Instructor)
     + Gompers, Paul, Joy Ishii, and Andrew Metrick, 2003, Corporate Governance and Equity Prices, *Quarterly Journal of Economics* 118, 107-155.
     + Bebchuk, Lucian, Alma Cohen, and Allen Ferrell, 2004, What Matters in Corporate Governance? *Review of Financial Studies* 22, 783-827.
     + Cremers and Nair, Governance Mechanisms and Equity Prices, 2005, *Journal of Finance,* Volume 60 Page 2859.
   * Effects of Legal Environments and Regulations:
     + La Porta, Rafeal, Florencio Lopez-De-Silanes, Andrei Shleifer, and Robert Vishny, 2002, Investor Protection and Corporate Valuation, *Journal of Finance* 57, 1147-1170.
     + Shleifer, Andrei and Daniel Wolfenzon, 2002, Investor Protection and Equity Markets, *Journal of Financial Economics* 66, 3-27.
     + Durnev Art and E. Han Kim, 2005, To Steal or Not to Steal: Firm Attributes, Legal Environment, and Valuation, *Journal of Finance* 60, 1461-1493.
     + Chnaochharia, Vidhi and Yaniv Grinstein, 2007, Corporate Governance and Firms Value: The Impact of the 2002 governance Rules, the Journal of Finance Vol. LXII. NO4. August 2007
     + Chnaochharia, Vidhi and Yaniv Grinstein, 2008, CEO Compensation and Board Structure, the Journal of Finance.
4. CEO and Top Management Teams:
   * CEO characteristics
     + Bertrand, Marianne and Antoinette Schoar, Managing with Style: The Effect of Managers on Firm Policies, *Quarterly Journal of Economics* 118, 1169-1208.
     + Bebchuk, Lucian, Martjin Cremers, and Urs Peyer, 2008, CEO centrality, Harvard Law and Economics Discussion Paper No. 601. Available at <http://www.nber.org/papers/w13701.pdf>
   * CEO power and internal connectedness
     + Li, Minwen, Yao Lu and Gordon M. Phillips, 2019, "CEOs and the product market: When are powerful CEOs beneficial?", *Journal of Financial and Quantitative Analysis* (Lad Article), December 2019, 54(6): Page 2295 - 2326.
     + E. Han Kim, and Yao Lu, 2018, “Executive suite independence: Is it related to board independence?”, *Management Science*, with E. Han Kim, 2018, 64(3): Page 1015-1033.
     + Khanna, Vikramaditya, E. Han Kim, and Yao Lu, 2015, "CEO connectedness and corporate fraud", Journal of Finance 2015, 70 (3): Page 1203-1252.
5. Social Connections and Networks:
   * Cai, Ye, and Merih Sevilir, 2012, Board Connections and M&A Transactions, *Journal of Financial Economics* 103, 327-349.
   * Hwang, Byong-Hyoun, and Seoyoung Kim, 2009, It Pays to Have Friends, *Journal of Finances* 93, 138-158.
   * Hwang, Byong-Hyoun, and Seoyoung Kim, 2012, Social Ties and Earnings Management, Working paper.
   * Butler, A. W. and Gurun, U. G. (2011). Educational networks, mutual fund voting patterns, and ceo compensation. Review of Financial Studies, forthcoming.
6. Political Connection of Firms:
   * Fisman, Raymond, 2001, Estimating the Value of Political Connections, *American Economic Review* 91, 1095-1102.
   * Faccio, Mara, 2005, Politically Connected Firms, *American Economic Review* 96, 369-386.
   * Faccio, M., W. Masulis, and J. McConnell, 2005, Political Connections and Corporate Bailouts, *Journal of Finance* 61, 2597-2635.
   * Dinc, Serdar, 2005, Politicians and banks: Political Influences on Government-owned Banks in Emerging Countries, *Journal of Financial Economics* 77, 453-479.
   * Khwaja, Asim Ijaz and Atif Mian, 2005, Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market, *Quarterly Journal of Economics*, 1371-1411.
7. State Owned Enterprises and Privatization
   * William Megginson and Jeffrey Netter, 2001, From State to Market: A Survey of Empirical Studies on Privatization, *Journal of Economic Literature* 39, 321-389.
   * La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2001, Government Ownership of Banks, *Journal of Finance* 57, 265-301.
   * Gupta, Nandini, 2005, Partial Privatization and Firm Performance, *Journal of Finance* 60, 987-1015.

**Assessment Methods and Criteria**

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| No. | Assessment Methods | Percentage |
| 1 | Class attendance and participation | 30% |
| 2 | Final corporate governance case discussion and report | 40% = group presentation 30% + challenger performance 10%  (The score of a participant is calculated based on mutual evaluation across groups and within groups). |
| 3 | Final in-class quiz | 30% |

**Requirements for Final Corporate Governance Case Study**

To help participants better understand the contents taught in class and corporate governance issues in practice, participants are required to study and analyze a firm’s corporate governance for the final assessment. Specific requirements are as follows:

1. The case study should be carried out in learning groups.
2. Each group should choose an enterprise as an object of case study and then systematically analyze its corporate governance framework, internal, external and soft corporate governance mechanisms in details.
3. Participants are encouraged to choose companies of new economy, companies in new and emerging industries, or companies with innovative and special business models.
4. It is required to analyze the application and implementation of main corporate governance mechanisms taught in class, such as ownership structure, control right structure, investor relationship management, incentive mechanisms for executives, and board of director operation, in the company chosen. Corresponding strengths and weaknesses of these corporate governance mechanisms should also be analyzed.
5. Each group should prepare a 15-minute class presentation and a written report.
6. The evaluation score of a group presentation, decided by the instructor and the participants in other groups. The score given by the instructor and the average score given by the participants from other groups (maximum score and minimum score are excluded) account for 50% of the final score, respectively.
7. We will pair each group in the final case analysis section. A group serves as a presentation group to analyze the corporate governance situation of the invested company from the perspective of an investor. Another group will review and challenge the presentation team's report from the perspective of a fundraiser for this project. The entire exhibition can be imagined as the presentation team reporting to the challenge team to obtain financial support from the challenge team, and jointly completing the investment and acquisition of the analyzed company. The performance of the presentation group and the performance of the challenge group will count 30% and 10%, respectively for the final score.
8. Members in each group should give a score between 0 and 1 to each other according to their contribution to the final case study. Each member’s final score for case study is the score of the group multiplied by his or her contribution coefficient, which is equal to the average of the scores given by other members within the same group.

**Faculty Profile: Professor Yao Lu**

(Tenured) Full Professor in Finance of Tsinghua SEM

Deputy Chair of the Department of Finance, SEM

Academic Director of TIEMBA (Tsinghua-INSEAD EMBA)

Deputy Director of Corporate Governance Center of Tsinghua University

Young Chang Jiang Scholar

Obtained "Outstanding Youth Science Fund" from the National Natural Science Foundation of China

Obtained "Tsinghua University Academic Newcomer Award"

Associate Editor of Journal of Comparative Economics, and Pacific-Basin Finance Journal; Editorial board member of Corporate Governance: An International Review.

Professor Yao Lu received her Ph.D. in Business Economics from Ross School of business, University of Michigan-Ann Arbor, USA; before that, she received Master's degree in Statistics and Financial Engineering from the Stern School of Business, New York University.

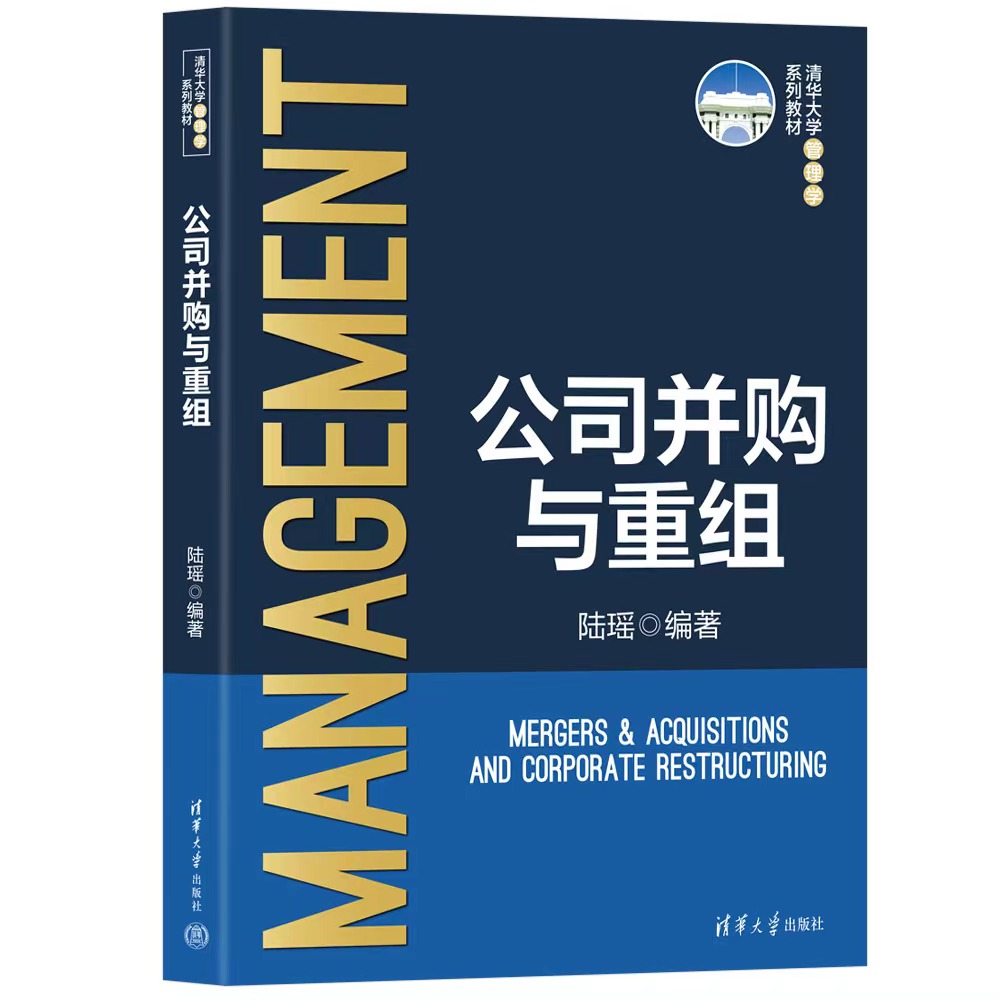
Her main research focuses on corporate governance, M&As, corporate investment, financing and restructuring, and capital market reform, development and globalization. Her teaching courses include Corporate Governance (EMBA, MCFO, MBA), Corporate Finance (MBA, Master of Finance), M&As (MBA, Master of Finance, MOOC), etc.

She has won the Teaching Excellence Award of School of Economics and Management of Tsinghua University, and the Teaching Star Award of Executive Education and Training Center of School of Economics and Management of Tsinghua University.

She has published (or accepted by journals) 50 papers in international and domestic top academic journals, including the *Journal of Finance, Management Science, Journal of Financial Economics, Review of Economics and Statistics, JFQA, Review of Finance, Journal of Corporate Finance, Economic Research, Management World*, etc. In addition, many of her articles are posted on the “Harvard Corporate Governance Forum”.

At present, she is the Academic Member of EMBA Education Center and Executive Training Center of SEM, Tsinghua University, respectively. She also serves as the Committee Member of China Finance Association and the Research Fellow of Management Research Center, Industrial Innovation and Finance Research Institute, National Governance and Global Governance Research Institute of Tsinghua University. She is also the Executive Committee Member of China Modern State-Owned Enterprise Research Institute of Tsinghua University. She once served as the Academic Deputy Director of Tsinghua X-lab (Tsinghua University Creative Innovation and Entrepreneurship Education Platform).

**Professor Lu published a text book, Mergers and Acquisition and Corporate Restructuring (《公司并购与重组》). The link to purchase the book can be obtained from scan the following bar code.**

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