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Course:
CORPORATE GOVERNANCE
SOMMERSEMESTER 2010

This course is designed to enhance the student's ability to understand corporate governance systems worldwide. Corporate governance is a subject of great interest to academics, business leaders, investors, and politicians throughout the world. Corporate governance issues arise in institutions if there is a potential conflict of interest among the stakeholders and the resulting transaction costs cannot be eliminated. Various economies have evolved different mechanisms to resolve the corporate governance issues. Anglo-Saxon systems differ from European and Japanese systems, and Eastern Europe and China, for instance, experiment with the way private organizations should be governed.

Despite the great interest and intense debate, there is still only little empirical evidence on the effectiveness of various governance systems. This course examines most current contributions from various perspectives and from an international angle. The topics to be covered are relevant for firms operating in highly dynamic competitive environments while being

confronted with different governance systems. Key topics include principles of corporate governance, the pattern of ownership and control of corporations across countries, corporate governance in transnational companies, the role of institutional investors on company control, the effects of increasing importance of human capital in corporate governance, and challenges of increasing management accountability.

COURSE ORGANIZATION

The course consists of 2 hours per week = 3 SP. There will be lecturing and frequent discussions. It is expected that students have read the readings before they come to class. Lively interactions between the professor and the students as well as among the students will be encouraged. There will be no endless repetition of the readings. Major points will be listed in handouts which will be provided to the students at the beginning of each class and posted on the course homepage.

Individual course grade consists of the grade in the final written exam.

COURSE OUTLINE

- Scope of the Firm and Corporate Governance Systems
- Corporate Governance and Boards of Directors
- Principles of CG and 'Code of Best Practice'
- Corporate Ownership and Control
- Does Corporate Governance Matter?
- Corporate Governance around the World
- Corporate Governance, Accountability, Anti-Corruption, and Social Responsibility
- Corporate Governance and Managerial Incentives

READING MATERIAL

The course is based on diverse reading material, cases and on the following textbooks:

Joachim Schwalbach, editor, *Corporate Governance*, 2nd edition, 2003, BWV-Berliner Wissenschafts-Verlag, Berlin. ISBN 3-8305-0331-8.

Ulrich Steger and Wolfgang Amann, *Corporate Governance*, 2008. ISBN 978-0-470-75417-7

Cornelis A. De Kluyver, *A Primer on Corporate Governance*, 2009, ISBN 978-1-60649-005-1 (e-book)

Yadong Luo, *Global Dimensions of Corporate Governance*, 2007, ISBN 978-1-4051-3707-2.

Thomas Clarke, *European Corporate Governance: Readings and Perspectives*, 2009.

Important reference in German:

P. Hommelhoff, K.J. Hopt und A. v. Werder, "Handbuch Corporate Governance", 2. Auflage, 2009, ISBN 978-3-7910-2596-4.

GUEST SPEAKERS

We can look forward to have three distinguished speakers on different topics who will provide us practical insights into current issues of corporate governance.

May 20th: Dr. Jörg Flath (Siemens AG), Compliance at Siemens

May 27th: Rudolf X. Ruter (Ernst&Young), Accountability & Responsibility

July 8th: Christian Strenger (Former Chairman of the Board of DWS Investment GmbH, Member in several Supervisory Boards, Member of German Government Commission on Corporate Governance, and former Chairman of the International Corporate Governance Network, ICGN), Responsibility of Investors.

COURSE OUTLINE & READINGS

NOTE :

- (1) REQUIRED READINGS ARE INDICATED (***).
- (2) OPTIONAL READINGS ARE INDICATED (**).
- (3) ALL REQUIRED AND SOME OPTIONAL READINGS ARE AVAILABLE ONLINE

Background Material and Surveys

Readings:

- ** M. Salter, "Notes on Governance and Corporate Control", Journal of Strategic Management Education, Vol. 1, No. 1, 2003, pp. 1-50.
- ** M. Becht, P. Bolton, and A. Röell, "Corporate Governance and Control", Finance Working Paper No. 02/2002, ECGI, October 2002.
- ** B.E. Hermalin, "Trends in Corporate Governance", Journal of Finance, Vol. 60, No. 5, 2005, pp. 2351-2384.
- ** B. E. Hermalin and M. S. Weisbach, "Transparency and Corporate Governance", (January 21, 2007). Available at SSRN: <http://ssrn.com/abstract=958628>
- ** J. Tirole, "Corporate Governance", Econometrica, Vol. 69, No. 1, 2001, pp. 1-35.

- ** A. Shleifer and R. Vishny, "A Survey of Corporate Governance", Journal of Finance, Vol.52, No.2, 1997, pp. 737-784.
- ** R.K. Morck and L. Steier, "A Global History of Corporate Governance – An Introduction", NBER Working Paper 11062, January 2005.
- ** D. W. Michaud and K. A. Magaram, "Recent Technical Papers on Corporate Governance", (April 6, 2006). Available at SSRN: <http://ssrn.com/abstract=895520>
- ** D. K. Denis and J. J. McConnell, "International Corporate Governance", (January 2003). ECGI - Finance Working Paper No. 05/2003. Available at SSRN: <http://ssrn.com/abstract=320121> or DOI: [10.2139/ssrn.320121](https://doi.org/10.2139/ssrn.320121)
- ** D. Larcker and B. Tayan, "Models of Corporate Governance: Who's the Fairest of Them all?", Working Paper, 2008.

Topic 1: Scope of the Firm and Corporate Governance Systems

Readings:

- *** **Kluyver (2009), pp. 1-26**
- *** **Steger/Amann (2008), pp. 3-20.**
- ** J. Weimer and J. Pape, "A Taxonomy of Systems of Corporate Governance", Corporate Governance, Vol. 7, No. 2, 1999, pp. 152-166.

- ** Peter Witt, "The Competition of International Corporate Governance Systems: A German Perspective", Management International Review, Vol. 44, No. 3, 2004, pp. 309-333.
- ** Bengt Holmström and John Roberts, "The Boundaries of the Firm Revisited", Journal of Economic Perspectives, Vol. 12, No. 4, 1998, pp. 73-94.
- ** R.V. Aguilera, I. Filatotchev, H. Gospel, and G. Jackson, "An Organizational Approach to Comparative Corporate Governance: Costs, Contingencies, and Complementarities", Organization Science, Vol.19, No.3, 2008, pp. 475-492.
- ** J.H. Davis, F.D. Schoorman and L. Donaldson, "Toward a Stewardship Theory of Management", Academy of Management Review, Vol.22, No.1, 1997, pp. 20-47.
- ** S. Letza et al., "Shareholding vs. Stakeholding", Corporate Governance, Vol. 12, No.3, 2004, pp. 242-262.
- ** R.K. Mitchell et al., "Toward a Theory of Stakeholder Identification and Salences", Academy of Management Review, Vol. 22, No.4, 1997, pp. 853-886.

Topic 2: Corporate Governance and Boards of Directors

Readings:

- *** **Steger/Amann (2008), pp. 20-24.**
- *** **Kluyver (2009), pp. 47-67.**
- ** O.E. Williamson, "Corporate Boards of Directors: In Principle and Practice", Journal of Law Economics and Organization, Vol. 24, No.2, 2008, pp. 247-272.
- ** B.E. Hermalin and M.S. Weisbach, "Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature", Economic Policy Review, Vol.9, No.1, 2003, pp. 7-26.
- ** P. deAndres, V. Azofra and F. Lopez, "Corporate Boards in OECD Countries: Size, Composition, Functioning and Effectiveness", Corporate Governance, Vol.13, No.2, 2005, pp. 197-210.
- ** R.B. Adams and D. Ferreira, "A Theory of Friendly Boards", Journal of Finance, Vol. 62, No. 1, 2007, pp. 217-
- ** K. J. Hopt, "The Board of Non-Profit Organizations: Some Corporate Governance Thoughts for Europe", ECGI Working Paper, April 2009.

Cases: Enron (A. Maleki and J. Schwalbach)
DaimlerChrysler

Topic 3: Principles of Corporate Governance and 'Code of Best Practice'

Readings:

*** German Corporate Governance Code

- ** OECD Principles of Corporate Governance, 2004
- ** EU Action Plan
- ** E. Wymeersch, "Enforcement of Corporate Governance Codes (June 2005)". ECGI - Law Working Paper No. 46/2005 Available at SSRN: <http://ssrn.com/abstract=759364>
- ** From the "Cadbury Report" to the "Combined Code", http://www.ecgi.de/codes/country_document/s/uk/cadbury.pdf
- ** Ch. Andres and E. Theissen, "Setting a Fox to keep the Geese – Does the Comply-or Explain Principle Work?", *Journal of Corporate Finance*, Vol. 14, 2008, pp. 289-301.
- ** Sarbanes-Oxley Act 2002 http://www.sarbanes-oxley.com/pcaob.php?level=1&pub_id=Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002, enacted by the U.S. Congress and signed into law by President Bush, is arguably the most far-reaching legislation affecting financial services, accounting, auditing, financial reporting and professional services firms - to say nothing of corporations and the public - since the U.S. securities and exchange laws of the early

1930s. Moreover, given the looming global presence of the U.S. financial markets, the provisions of the Act, and of the regulations that will give it practical application, will have major impact worldwide, not only in America.

- ** J.C. Coates IV, "The Goal and Promises of the Sarbanes-Oxley Act", *Journal of Economic Perspectives*, Vol.21, No. 1, 2007, pp. 91-116.
- ** K. Litvak, "The Effect the Sarbanes-Oxley Act on Non-US Companies Cross-Listed in the US", *Journal of Corporate Finance*, Vol. 13, pp. 195-228, 2007. Available at SSRN: <http://ssrn.com/abstract=876624>

Cases: Sarbanes-Oxley-Act: Costs and Benefits.

See e.g. Zhang, Ivy, "Economic Consequences of the Sarbanes-Oxley Act of 2002" (February 1, 2007). Available at SSRN: <http://ssrn.com/abstract=961964>

Important Link to CG Guidelines Worldwide:

www.ecgi.org

Topic 4: Corporate Ownership and Control

Reading:

- *** **J. Kay and A. Silberston, "Corporate Governance", *Perspectives on Company Law*, Vol. 2, 1996, particularly section on: Who owns the company.**

- ** La Porta et al., in: Schwalbach (2003), pp. 25-67.
- ** T. Kirchmaier and J. Grant, "Who Governs? Corporate Ownership and Control Structures in Europe", (June 7, 2004). Available at SSRN: <http://ssrn.com/abstract=555877>
- ** C. Sundaramurthy and M. Lewis, "Control and Collaboration: Paradoxes of Governance", Academy of Management Review, Vol. 28, No. 3, 2003, pp. 397-415.
- ** S. Thomsen, T. Pedersen, and H.K. Kvist, "Blockholder Ownership: Effects in Firm Value in Market and Control based Governance Systems", Journal of Corporate Finance, Vol. 12, 2006, pp. 246-269.
- ** E. Lehmann and J. Weigand, "Does the Governed Corporation Perform Better? Governance Structures and Corporate Performance in Germany", European Finance Review, Vol. 4, 2001, pp. 157-195.
- ** L.A. Bebchuk and A. Hamdani, "The Elusive Quest for Global Governance Standards, University of Pennsylvania Law Review, Vol. 157, No.5, pp. 1263-
- ** C. Fohlin, "The History of Corporate Ownership and Control in Germany", in: R. Morck (ed.), The History of Corporate Governance, NBER and University of Chicago Press.

- ** M. Bertrand and A. Schoar, "The Role of Family in Family Firms", Journal of Economic Perspectives, Vol. 20, No. 2, 2006, pp. 73-96.

Cases:

Nokia, in: Schwalbach (2003), pp. 13-23.
 DWS, in: Schwalbach (2003), pp. 161-170.
 Hermes, www.hermes.co.uk
 Deutsche Börse and Hedge Funds

Topic 5: Does Corporate Governance Matter?

Readings:

- ** S. Bhagat and B. Bolton, "Corporate Governance and Firm Performance", Journal of Corporate Finance, Vol. 14, 2008, pp. 257-273.
- ** Brown, Lawrence D. and Caylor, Marcus L., "Corporate Governance and Firm Valuation". Journal of Accounting and Public Policy, Vol. 25, No. 4, 2006. Available at SSRN: <http://ssrn.com/abstract=754484>
- ** R. Aggarwal et al., "Do U.S. Firms Have the best Corporate Governance? A Cross-Country Examination of the Relation between Corporate Governance and Shareholder Wealth", NBER Working Paper 12819, January 2007.

- ** B. Holmström and S. Kaplan, "The State of U.S. Corporate Governance: What's Right and What's Wrong?", Journal of Applied Corporate Finance, Vol. 15, 2003, pp. 8-21.
- ** P.A. Gompers, J.L. Ishii and A. Metrick, "Corporate Governance and Equity Prices", Quarterly Journal of Economics, Vol. 118, No.1, 2003, pp. 107-155.
- ** R. Bauer, N. Günster and R. Otten, "Empirical Evidence on Corporate Governance in Europe", Journal of Asset Management, Vol.5, No.2, 2004, pp. 91-104.
- ** L.A. Bebchuk, A. Cohen and A. Ferrell, "What Matters in Corporate Governance?", Discussion Paper 491, Harvard Law School, November 2004.
- ** C. Doidge, G.A. Karolyi and R.M. Stulz, "Why Do Countries Matter so much for Corporate Governance?", NBER Working Paper 10726, August 2004.
- ** M.K.J. Cremers and V.B. Nair, "Governance Mechanisms and Equity Prices", Journal of Finance, Vol. 60, No. 6, 2005, pp. 2859-2894.
- ** W. Drobetz, Schillhofer, and Zimmermann, "Corporate Governance and Expected Stock Returns: Evidence from Germany", European

Financial Management, Vol.10, No.2, 2004, pp.267-293.

- ** W. Drobetz, K. Gugler, and S. Hirschvogl, "The Determinants of German Corporate Governance Rating", in: P.-O. Bjuggren and D. Mueller, "The Modern Firm, Corporate Governance, and Investment", 2009, Chapter 14. pp. 361-381.

Case:

Toyota & Canon vs. GM & Xerox based on M. Yoshimori (2005, CG)

Topic 6: Corporate Governance Around the World

Readings:

Germany:

- *** **M. Goergen, M.C. Manjon, and L. Renneboog, "Recent Developments in German Corporate Governance", International Review of Law and Economics, Vol. 28, 2008, pp. 175-193.**
- ** Sigurt Vitols, "Changes in Germany's Bank-Based Financial System: Implications for Corporate Governance", Corporate Governance, Vol. 13, No. 3, May 2005, pp. 386-396.
- ** Dieter Sadowski et al., "Labour Co-Determination and Corporate Governance in Germany", in: Schwalbach (2003), pp. 144-160.

Europe:

- ** Colin Mayer, "Firm Control", in: Schwalbach (2003), pp. 68-88.
- ** M. Becht and A. Röell, "Blockholdings in Europe: An International Comparison", European Economic Review, Vol. 43, No. 4-6, 1999, pp. 1049-1056.
- ** L. Enriques and P.F. Volpin, "Corporate Governance Reforms in Continental Europe", Journal of Economic Perspectives, Vol. 21, No. 1, 2007, pp. 117-140. Available at SSRN: <http://ssrn.com/abstract=970796>
- ** D. C. Mueller, "The Economics and Politics of Corporate Governance in the European Union", (May 2005). ECGI - Law Working Paper No. 37/2005. Available at SSRN: <http://ssrn.com/abstract=730366> or DOI: [10.2139/ssrn.730366](https://doi.org/10.2139/ssrn.730366)
- ** J. Grant and Th. Kirchmaier, "Corporate Ownership Structure and Performance in Europe", CEP Discussion Paper No. 631, April 2004.
- ** U. C. Braendle and J. Noll, "The Societas Europaea - A Step Towards Convergence of Corporate Governance Systems?", (April 15, 2005). Available at SSRN: <http://ssrn.com/abstract=704881> or DOI: [10.2139/ssrn.704881](https://doi.org/10.2139/ssrn.704881)

Asia:

- ** Hiroyuki Itami, "Concept of the Firm and Corporate Governance in Japan", in: Schwalbach (2003), pp. 89-102.
- ** D. Barton et al., "Asia's Governance Challenge", The McKinsey Quarterly, No. 2, 2004, pp. 54-61.
- ** E. Gedajlovic and D.M. Shapiro, "Ownership Structure and Firm Profitability in Japan", Academy of Management Journal, Vol. 45, No.2, 2002, pp. 565-575.
- ** S.J. Chang, "Ownership Structure, Expropriation, and Performance of Group-Affiliated Companies in Korea", Academy of Management Journal, Vol. 46, No. 2, 2003, pp. 238-253.
- ** J. Solomon et al., "A Conceptual Framework for Corporate Governance Reform in South Korea", Corporate Governance, Vol. 10, No. 1, 2002, pp. 29-46.
- ** D. C. Clarke, "The Independent Director in Chinese Corporate Governance", Delaware Journal of Corporate Law, Vol. 31, No. 1, 2006, pp. 125-228. Available at SSRN: <http://ssrn.com/abstract=895588>
- ** U. C. Braendle, T. Gasser and J. Noll, "Corporate Governance in China - Is Economic

Growth Potential Hindered by Guanxi?", (April 25, 2005). Available at SSRN: <http://ssrn.com/abstract=710203>

- ** Khanna, Vikramaditya S. and Black, Bernard S., "Can Corporate Governance Reforms Increase Firms' Market Values? Evidence from India". Journal of Empirical Legal Studies, Vol. 4, 2007. Available at SSRN: <http://ssrn.com/abstract=914440>

Case:

Mannesmann-Vodafone AirTouch, in: Issues in International Corporate Control and Governance, Vol. 15, 2001, pp. 371-381.

Topic 7: Corporate Governance, Accountability, Corruption, and Social Responsibility

Readings:

- *** **Kluyver (2008), pp. 27-45.**
- *** **Luo (2007), pp.128-145, (accountability), pp. 159-191 (anti-corruption)**
- *** **"Corporate Social Responsibility", Chapter 18, in: D.P. Baron, "Business and its Environment, 5th edition, 2006, pp. 653-673.**

- ** M.E. Porter and M.R. Cramer, "Strategy and Society", Harvard Business Review, Vol. 85, 2006, pp. 78-92
- ** Lederman, Daniel, Loayza, Norman and Soares, Rodrigo R., "Accountability and Corruption: Political Institutions Matter", (November 2001). World Bank Policy Research Working Paper No. 2708. Available at SSRN: <http://ssrn.com/abstract=632777>
- ** Wu, Xun, "Corporate Governance and Corruption: A Cross-Country Analysis", Governance: An International Journal of Policy, Administration and Institutions, Vol. 18, No. 2, 2005, pp. 151-170. Available at SSRN: <http://ssrn.com/abstract=921520>
- ** J. Svensson, "Eight Questions about Corruption", Journal of Economic Perspectives, Vol. 19, No. 3, 2005, pp. 19-42.
- ** Marc Goergen and Luc Renneboog, "The Social Responsibility of Major Shareholders", Discussion Paper, 2002.
- ** Richard A. Johnson and Daniel W. Greening, "The Effects of Corporate Governance and Institutional Ownership Types on Corporate Social Performance", Academy of Management Journal, Vol. 42, No. 5, 1999, pp. 564-576.
- ** Isabelle Maignan and David A. Ralston, "Corporate Social Responsibility in Europe and the U.S.: Insights from Businesses' Self-presentations", Journal of International

Business Studies, Vol.33, No.3, 2002, pp. 497-514.

- ** Margolis, Joshua D., Elfenbein, Hillary Anger and Walsh, James P., "Does It Pay to Be Good? A Meta-Analysis and Redirection of Research on the Relationship Between Corporate Social and Financial Performance". Available at:
<http://stakeholder.bu.edu/Docs/Walsh,%20Jim%20Does%20It%20Pay%20to%20Be%20Good.pdf>

Cases:

Siemens

Nike in Asia

Topic 8: Corporate Governance and Managerial Incentives

Readings:

- *** **Lucian A. Bebchuk and Jesse M. Fried, "Pay without Performance: Overview of the Issues", Academy of Management Perspectives, Vol. 20, No. 1, 2006, pp. 5-24.**
- ** L.A. Bebchuk and J.M. Fried, "Paying for Long-Term Performance", Discussion Paper, Harvard Law School, Dec. 2009.

- ** L.R. Gomez-Mejia et al., "The Determinants of Executive Compensation in Family-Controlled Public Corporations", Academy of Management Journal, Vol. 46, No. 2, 2003, pp. 226-237.
- ** L.A. Bebchuk and J.M. Fried, "Executive Compensation as an Agency Problem", Journal of Economic Perspectives, Vol. 17, No. 3, 2003, pp. 71-92.
- ** Brian J. Hall, "What you need to know about stock options", Harvard Business Review, March-April 2000, 121-129
- ** B.J. Hall and K.J. Murphy, "The Trouble with Stock Options", Journal of Economic Perspectives, Vol. 17, No. 3, 2003, pp. 49-70.
- ** Kevin J. Murphy, "Executive Compensation", in: Handbook of Labor Economics, Vol. 2, edited by O. Ashenfelter and D. Card, 1999, pp. 2485-2563.
- ** Martin Conyon and Joachim Schwalbach, "Corporate Governance, Executive Pay and Performance in Europe", in: J. Carpenter and D. Yermack (eds.), "Executive Compensation and Shareholder Value: Theory and Evidence", Kluwer 1998, pp. 13 - 34.
- ** Stefan Winter, "Managerial Stock Option Contracts and Firm Performance", in: Schwalbach (2003), pp. 104-125.
- ** Brian R. Cheffins, "The Metamorphosis of 'Germany Inc.': The Case of Executive Pay",

American Journal of Comparative Law, Vol. 49, No. 3, 2001, pp. 497-539.

- ** T. Kato and Ch. X., "Executive Compensation, Firm Performance, and Corporate Governance in China: Evidence from Firms Listed in the Shanghai and Shenzhen Stock Exchanges", (September 2005). IZA Discussion Paper No. 1767. Available at SSRN: <http://ssrn.com/abstract=555794> or DOI: [10.2139/ssrn.555794](https://doi.org/10.2139/ssrn.555794)
- ** D. W. Collins, Gong, Guojin and Li, Haidan , "Corporate Governance and Backdating of Executive Stock Options", (April 2007). Available at SSRN: <http://ssrn.com/abstract=934881>
- ** R. Schmidt and J. Schwalbach, „Ausmaß und Dynamik der Vorstandsvergütung in Deutschland“, Zeitschrift für Betriebswirtschaft – Journal of Business Economics, Special Issue 1/2007, pp. 111-122.
- ** H. Kliemt and J. Schwalbach, „Managergehälter ein Problem?“, WiSt – Wirtschaftsstudium, erscheint demnächst.

Cases:

Statement of the European Corporate Governance Forum on Director Remuneration, 23 March 2009

Executive Compensation and Firm Performance in Germany and Europe

Note: Important Links to Corporate Governance Networks:

- International Corporate Governance Network (ICGN), www.icgn.org
- European Corporate Governance Network (ECGN), www.ecgi.org
- Corporate Governance Bulletin, www.corpgov.net
- The Corporate Library, www.thecorporatelibrary.com
- EU Corporate Governance http://europa.eu.int/comm/internal_market/company/index_en.htm
- German Governmental Commission of Corporate Governance Codex