Corporate Governance in International Business and Finance

EIB  B239m/ILO L239m

Spring 2015

Professor Jeswald W. Salacuse
Mugar 250E
Tel: 617 627 3633
Email: Jeswald.Salacuse@Tufts.edu

Syllabus

March 5 – April 23, 2015

Objective: This module seminar explores business, financial, political and legal issues affecting systems by which corporations are directed and controlled, both in industrialized and developing countries. Addressing the subject in a comparative and interdisciplinary manner, students will examine the nature of the corporation, the basic theory of the firm, the internal and external architecture of corporate governance, the role of regulatory authorities, models of corporate governance, principal-agent theory within the corporate context, as well as corporate culture, corruption, management and board compensation, conceptions of social responsibility, and capital market development and international cross-listing of shares. The module will focus on both the theoretical and policy implications of corporate governance, including efforts in various parts of the world to effect reforms and set new standards in the wake of corporate scandals. One-half credit.


Office Hours: Mugar 250E, Tuesday mornings, by sign-up sheet.

Requirements:

1. Attendance and Participation: Students are required to attend all class sessions and to participate actively in discussions. For participation to be meaningful, students should read assigned material before coming to class. At each class meeting, a student designated by the instructor may be asked to lead the discussion on a particular reading or make a presentation on a specific topic.
3. **Final Paper:** Each student will be required to complete a seminar paper of no more than 3000 words, double-spaced and printed in twelve point font on a subject related to corporate governance and approved by the instructor. Students are to submit their seminars papers in hard copy no later than **April 24, 2015 at 4 pm.** As an initial step in paper preparation, each student will submit to the instructor not later than **4 pm March 20, 2015** a written research paper proposal describing the topic to be addressed, its significance, the general approach to be employed by the student in addressing it.

**The nature of the final paper:** Students are encouraged to pursue any corporate governance topic in which they are interested. Three possible approaches for writing the final paper include:

1. to examine either from a neutral or partisan position, the functions of a particular group involved in corporate governance, such as the board of directors, (or supervisory board), or committees, (especially audit, compensation and nominating); oversight parties, such as auditors; regulators; stakeholders (e.g., employees, creditors); institutional investors, the financial press, accrediting agencies, and others whose functions may be less evident but nonetheless important; or

2. to examine a particular corporate governance issue, for example, the choices between a prescriptive corporate legal framework vs. the greater autonomy provided by more recent legal structures, ways of increasing the representation of women and minorities on corporate boards, an analysis of the pros and cons of limited liability for directors acting in good faith, the special challenges of applying corporate governance principles in family controlled businesses, or the advantages and disadvantages of having stakeholders (e.g. labor) on the board of directors.

3. to make a case study analysis of a corporate governance scandal or crisis, examining the causes, effects, corporate governance deficiencies, and needed internal and external corporate reforms.

These suggested topics are not exclusive. The instructor would be happy to consider any research ideas that students would like to pursue. A portion of certain class periods will be devoted to a discussion of research ideas that students are pursuing.

**Reading and Material**

The readings, except for the required book, will be posted on the Tufts University Trunk (Trunk.Tufts.edu) for consultation by students electronically. Students are asked to read John Micklethwait and Adrian Wooldridge, *The Company*, which is available for purchase at the Tufts Bookstore and is also on reserve in the Ginn Library.

Note: Assigned materials in addition to those listed below may be posted or circulated to address current corporate governance developments.

**Grading:** Final grade for the seminar will consist of three factors:

- 75% of the final grade will be determined by the grade on the final seminar paper.
- 25% of the final grade will be determined by the quality of student participation.

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Class One (March 5): Introduction to the Corporation and Corporate Governance.
1. Historical Background: The Great Idea. The nature, significance, formation and historical development of the corporation.
2. Legal Characteristics: Significant characteristics of the corporation (legal personality; indefinite life; "joint-stock" aggregation of risk capital; limited liability; transferability of shares). The corporation as distinguished from other business entities (sole proprietorship, partnership; limited partnership).
3. Corporate Structure: Introduction to agency concepts (board & managers/stockholders; majority and minority stockholders) and to "agency problem".
4. Corporate Governance, Its Meanings, and Significance

Required Readings:


Class Two (March 12): The Objectives of the Corporation, the Internal and External Institutions of Corporate Governance, and the Notion of Corporate Social Responsibility.
1. The Purpose of the Corporation: For whom does the corporation exist: shareholders, stakeholders, the community, and the state? What does the concept of corporate social responsibility entail?
2. The internal institutions of corporate governance: Directors, managers, and shareholders.
3. The external institutions of corporate governance: Regulators, markets, auditors, and others.
4. Alternative models of corporate regulation. (e.g., disclosure model vs. merit model).
5. Alternative models of corporate governance. (e.g., Anglo-American vs. Continental European model).
6. Corporate Social Responsibility (CSR): What is CSR? Does it exist? How does it relate to corporate governance? Does it matter?

Required Readings:


**Class Three (March 26): The Agency Problem in Corporate Governance: Accountability of Managers and Directors.**

1. Defining and enforcing managers’ duties.
2. Mechanisms of stockholders accountability: a. voting and proxy contests; b. derivative and class actions; c. takeovers, tender offers, and markets for corporate control.
3. Outside forces: a. Regulators (federal, state, exchanges as SROs); b. government enforcement (civil and criminal).
4. Legislative (introduction to Sarbanes-Oxley, foreign initiatives).
5. Gatekeepers and Access to capital: auditors; investment bankers; rating agencies; exchanges; and the financial press.

**Required Readings:**


1. Role of stockholders.
2. Role of institutional investors in particular.
3. Role of standard setting organizations (e.g. OECD).
4. Legislative initiatives and proposals (e.g., Sarbanes-Oxley, Higgs Report).
5. The Role of “Gate Keeper.”

Required Readings:


In re Walt Disney, Delaware Supreme Court, June 6, 2006, pp. 28-89. 


Class Five (April 9): Policing Corporate Governance: The Role of the Corporate General Counsel and the Problem of Corruption

Guest Lecturer: Alan Crain, Senior Vice President and Chief Legal & Governance Officer, Baker Hughes Incorporated

Required Reading:

Baker Hughes: Foreign Corrupt Practices Act (Stanford Business School Case CG-18, 08/01/10).

Class Six (April 16): Corporate Governance in Context: Family Businesses, Multinational Firms, Hi-Tech Firms, and Firms in Bankruptcy and Financial Distress.

Required Readings:


Class Seven (April 23): The Challenge of Designing and Implementing Corporate Governance Systems in Developing Countries and Emerging Markets.

Required Readings:


Student presentations of their research