



Stanford Graduate School of Business

An International Comparison of Corporate Governance Systems

Fall Quarter T, Fr 2003 1:20-3:05
(11/04/03)

Eva M. Meyersson Milgrom
Visiting Associate Professor
Littlefield L-279, tel: 5-9023
emilgrom@stanford.edu

Faculty Assistant Chris Lion
Littlefield L330, tel: 3.9040
Lion_Christopher@gsb.stanford.edu

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 take-overs 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.

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 Assignments

Each case 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 session, will consist of 3-4 students. All students are expected 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 are found in the Course Reader and in the textbook *Ownership of Enterprise* by H. Hansmann, Harvard University Press, 1996. Both can be purchased in the Stanford Bookstore. All Recommended Readings are found in the Course Reader or are on hold at the Jackson Library

The Political Economy of Corporate Governance

Session 1: Friday 26 Sept. *Ownership Around the World*

A presentation of the course

A presentation of the text book *The Ownership of Enterprise* by H. Hansmann, The Belknap Press of Harvard University Press, Cambridge, Massachusetts 1996.

Session 2: Tuesday 30 Sept. *Corporate Governance Around the World*, and, *A Paradigm Shift: the Political Economy of Corporate Governance*.

Required Reading:

"Investor Protection and Corporate Valuation" R. La Porta, F. Lopez-De Silanes, R. Vishny and A. Shleifer, *The Journal of Finance*, Vol. 17, No. 2, June 2002

Recommended reading:

"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.

"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.

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

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 3: Friday 3 Oct. Individual student presentations based on assigned chapters from *The Ownership of Enterprise* by H. Hansmann 1996, pp. 53-299.

Session 4: Tuesday 7 Oct. HBS Case 9-700-049 "The Japanese Financial System: From Postwar to the New Millennium." And HBS Case 2000 N-9-800-386. "The German Financial System."
(all cases presented in class are required readings)

Session 5: Friday 10 Oct., Alternative Ways of Establishing the Rule of Law. Guest Speaker Steve LeVine, Foreign Correspondent for the *Wall Street Journal*.

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:

"Private Order Under Dysfunctional Public Order" John McMillan and Chris Woodruff, *Michigan Law Review*, 1998, pp. 2421-2458

"Private Benefits of Control: an International Comparison," Alexander Dyck and Luigi Zingales, Mimeo Chicago University 2002 (forthcoming in the *Journal of Finance*, 2003)

Disciplinary devices

Session 6: Tuesday 14 Oct. Corruption: Regulatory or self-regulatory regimes? Guest speaker: Pablo Zoido GSB PhD program, Stanford University

Required readings:

"The Regulation of Entry." S. Djankov, R. La Porta, F. Lopez de Silanes and A. Shliefer, *The Economic Review*, Vol. 117, No. 1, 2002, pp. 1-39.

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

Recommended readings

"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, The European Bank for Reconstruction and Development, Working Paper No 42, Oct. 1999.

Session 7: Friday 17 Oct The Legal Basis of Corporate Governance in Publicly Held Corporations: A Comparative Approach.

Special Student Assignments

Required Reading:

The Legal Basis of Corporate Governance in Publicly Held Corporations: a Comparative Approach, by Arthur R. Pinto and Gustavo Visentini, Kluwer Law International, The Hague 1998. (on hold in Jackson Library)

Session 8: Tuesday 21 Oct. The Merger Wave

Required Reading:

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.

Recommended Reading:

Corporate Governance and Merger Activity in the U.S: Making Sense of the 1980s and 1990s, B. Holmström and S. N. Kaplan, Mimeo 2001, pp. 1-37

"Is This the First International Merger Wave?" B. S. Black. *M&A Lawyer* July/Aug 2000, pp. 20-26.

Session 9: Friday 24 Oct. "Mannesman AG", HBS Case N9- 401-013

Session 10: Tuesday 28 Oct. Control, Stock Markets and Cross Listing

Special student assignment:

Recommended Reading:

What Makes Stock Exchanges Succeed? M. Pagano, O. Randl, A. Röell, and J. Zechner, CSEF Working Paper No. 50, Dec 2000, pp.1-13.

"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.

Session 11: Friday 31 Oct. HBS Case, "Governance at Metallgesellschaft (A)" 9-495-055

Session 12: Tuesday 4 Nov. Control and Board Composition in Different Institutional Regimes

Required Readings:

"CalPERS and Institutional Shareholder Activism," *GSB Stanford Case* BE/12 May 15, 1997

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

Recommended Readings

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

Institutional Investor Behavior in Sweden. Mimeo Therese Strand och Graziella Ström. Handouts in class

Session 13: Friday 7 Nov. Control and CEO Compensation

Required Reading:

"Incentive Strategy II: Executive Compensation and Ownership Structure," *HBS Case 9-902-134*

Recommended Reading:

"CEO Compensation," K. Murphy, Chapters: 12 and 13. From O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Vol. 3 North Holland, 1999, pp. 388-443.

Six Challenges in Designing Equity-Based Pay B. Hall, NBER Working Paper 9887, July 2003.

"Managerial Power and Rent Extraction in the Design of Executive Compensation" L.A. Bebchuk, J. Fried and D. Walker, *The University of Chicago Law Review* Vol 69 2002, pp. 751-846 .

The Trouble with Stock Options, B. J. Hall and K.J. Murphy, NBER Working Paper 9784, June 2003.

Session 14: Tuesday 11 Nov. State Ownership or Private Ownership

Student presentations from

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 15: Friday 14 Nov. Corporate Governance and Bankruptcy. Guest Speaker: Attorney DAVID GARFIELD, Wells Fargo.

Required Reading

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

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

Corporate Governance Around the World

Session 17: Friday 21 Nov. Venture Capital and the Stock Market; Guest Lecturer: Peter Lorentsen GSB PhD program Stanford University

Required Reading:

“Does Venture Capital Require an Active Stock Market?” R. J. Gilson and B. Black, *Journal of Applied Corporate Finance*, Winter 1999, pp. 36-48.

China’s Venture Capital Industry: Institutional trajectories and system structure. S. White, J. Gao and W. Zhang, Mimeo, November 2002.

Session 18: Tuesday Nov 25. HBS Case, “Casablanca Finance Group”, 9-700-063 and Newmont in Peru Case IB-51

Session 19: Tuesday 2 Dec. Corporate Governance Institutions and Transition. Possible guest speaker

Required Reading:

“The German Financial System in 2000”, *HBS Case N-9-800-386* (same as at session 4)

Recommended Reading:

“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

Session 20: Friday 5 Dec. Student Presentations Final Case: Petro China

Required Reading

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