



APPLIES TO ACADEMIC YEAR 2008/2009

## GRA 6542 Corporate Governance

### Program

Master of Science in Business and Economics (Finance), Master of Science in Financial Economics, Specialization Course

### Responsible for the course

Øyvind Bøhren

### Department

### Term

According to study plan

### ECTS Credits

6

### Language of instruction

English

This course addresses the situation where the firm's stakeholders (such as the owners, creditors, management, and employees) disagree on how to use the firm's resources. Such a setting of potential conflicts of interest between stakeholders creates a corporate governance problem, which may produce agency costs for the firm and for society at large. We will primarily study the corporate governance problem in terms of principal-agency relationships between the owners, the creditors, the board, and the management team. Empirical findings on corporate governance problems and their solutions throughout the world will be an important part of the course. We do this both to motivate the real-world relevance of corporate governance and to help the student see the link between theory and practice.

### Learning outcome

The major objective of the course is to train the student in understanding what a corporate governance problem is, how it can be discovered, how serious it is, and how it can be handled. A key learning outcome is to successfully use rather simple theoretical and empirical insights to reduce the value drain caused by weak governance.

### Prerequisites

GRA 6533 Theory of Finance/GRA 6534 Introduction to Financial Economics

### Compulsory literature

#### Articles:

Journal articles, working papers, excerpts from textbooks, and lecture handouts

### Recommended literature

#### Course outline

1. The corporate governance problem: What is it, where does it come from and how serious is it? What is the link between corporate governance and corporate finance?
2. Ownership structure: Does it matter if owners are small or large, whether they are individuals or institutions, and whether they are long-term or short-term? Why are large owners a problem for small owners and vice versa? Can firms survive without owners?
3. Shareholder activism: Do takeover threats reduce the corporate governance problem? Do mergers reduce governance problems, or are they just driven by them? Do mutual funds, hedge funds, and pension funds influence the governance of the firms they invest in, or are they too small and incompetent to matter?
4. Owners and creditors: How can owners hurt the creditors' best interests? What will creditors do to prevent this from happening? Who pays for this agency problem?
5. Board composition: Should boards be large or small, dominated by owners or managers, homogenous or heterogenous?
6. Compensation: How does fixed pay vs. performance pay influence the corporate governance problem?
7. Private firms: How does the nature of the corporate governance problem differ between public (listed) and private (nonlisted) firms? What is the major governance problem for family firms? Why do firms choose to stay private rather than go public? Do private equity funds mimic the governance function of active family ownership?

8. Regulation: Should politicians interfere with corporate governance? For instance, does it make sense to have the Norwegian system of a 10% maximum equity fraction held by an investor in a bank, to mandate at least 40% of each gender in the boardroom, and to ensure that 1/3 of the directors are employees in the firm? Why have more than 50 stock exchanges around the world issued corporate governance recommendations?

The details of the course will be designed in the fall of 2008. Therefore, the final structure may deviate from the course outline above, but not in a fundamental sense. This means we will address each of the eight topics, but not necessarily every single question outlined above.

### **Computer-based tools**

Blackboard/homepage

### **Course structure**

The instruction over 36 lecture hours consists primarily of presentations and discussions of the readings assigned to the topics listed above. Students are expected to have read the material before each class meeting.

Specific Information regarding any aspect of student evaluation will be provided in class. It is the student's responsibility to obtain this information. Please note that whilst attendance is not compulsory in all courses, it is the students responsibility to obtain any information provided in class that is not included on the course homepage/Blackboard or text book. Homepages and/or Blackboard are not designed for the purpose of students who choose not to attend class.

### **Evaluation**

Your course grade will be based on the following activities and weights:

40% class work (in the form of a mix of some/ all of the following: hand in of case write ups, projects, and homework; case presentations and class participation; in class midterm and quizzes) and 60% final exam (two hours). Both parts of the evaluation need to be passed in order to get a grade in the course.

Specific information regarding any aspect of student evaluation will be provided in class. It is the student's responsibility to obtain this information. Please note that whilst attendance is not compulsory, it is the student's responsibility to obtain any information provided in class that is not included on the course homepage/Blackboard or the assigned course literature. Homepages and/or Blackboard are not designed for the purpose of students who choose not to attend class.

### **Evaluation code(s)**

GRA 65421 counts for 100% of the final grade.

### **Aids at the examination**

A bilingual dictionary and BI-approved exam calculator. Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary. <http://www.bi.edu/studenthandbook/examaids>

### **Makeup exam**

Re-takes are only possible at the next time a course will be held. When the course evaluation has a separate exam code for each part of the evaluation it is possible to retake parts of the evaluation. Otherwise, the whole course must be re-evaluated when a student wants to retake an exam. Retake examinations entail an extra examination fee

### **Honor Code**

Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honor code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honor code system, to which the faculty are also deeply committed.

Any violation of the honor code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academy integrity. If you have any questions about your responsibilities under the honor code, please ask.