



APPLIES TO ACADEMIC YEAR 2009/2010

GRA 6542 Corporate Governance

Programme

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

Responsible for the course

Department

Term

According to study plan

ECTS Credits

6

Language of instruction

English

Introduction

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. This 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

An undergraduate course in corporate finance and an undergraduate course in econometrics

Compulsory reading

Articles:

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

Other:

A list of compulsory readings will be provided on Blackboard or in class.

During the course there may be hand-outs and other material on additional topics relevant for the course and the examination.

Recommended reading

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 both a problem and a blessing for small owners and vice versa? Can firms survive without owners?
3. The market for corporate control: Do takeover threats reduce the corporate governance problem? Do mergers reduce agency costs, or are they just driven by them?
4. Fund activism: Do private equity funds, 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?
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?

- Are CEOs paid excessively?
7. 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?
 8. Private firms: How does the nature of the corporate governance problem differ between public (listed) and private (nonlisted) firms? Why do firms choose to stay private rather than go public?
 9. Family firms: What is the major governance problem for firms controlled by a family?
 10. Regulation: Should politicians interfere with corporate governance? For instance, does it make sense to have the Norwegian system of mandating at least 40% of each gender in the boardroom, and to ensure that 1/3 of the directors are employees? Why have more than 50 stock exchanges around the world issued recommendations for how to execute corporate governance?

Computer-based tools

Blackboard

Learning process and workload

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.

Please note that while attendance is not compulsory in all courses, it is the student's own responsibility to obtain any information provided in class that is not included on the course homepage/Blackboard or text book.

Examination

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

50% 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 50% 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 student evaluation beyond the information given in the course description will be provided in class. This information may be relevant for requirements for termpapers or other hand-ins, and/or where class participation can be one for several elements of the overall evaluation.

Exam code(s)

GRA 65421 counts for 100% of the final grade.

Examination support materials

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>

Re-sit examination

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

Additional information

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 academic integrity. If you have any questions about your responsibilities under the honor code, please ask.