

## Corporate Governance

(*prof. Alessandro Lai – Verona University*)

### Objectives

The course aims at developing Ph.D. students' knowledge about the theoretical framework of Corporate Governance (CG), making them understanding how and from where the problem of governance arises in states, public and private entities. The solution to this problem should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. Focussing on a corporate level, lectures will show how firms are controlled, who actually exercise this control, the way to reduce and manage corporate risk through effective internal control systems, and mechanisms driving the distribution of the created value among shareholders. The historical evolution of theories regarding CG and different geographic topics are both considered, to get tools useful to carry on (or to understand) CG research, and to better understand related methodologies. Governance systems are investigated by considering the main principles and rules concerning organizations as well as the processes that either direct strategic choices and regulate the implementation of corporate strategy.

### Themes and Topics – Syllabus content – References

#### 1. Basic issues in CG

- a. The CG in the post-modern forms of economic and political organizations: the governance of state, public entities and corporates
- b. The international debate about CG
- c. Differences between governance and management
- d. Different forms of corporate control

#### *Papers and readings*

- i. OECD (2004), *Oecd 2004 principles of corporate governance*, [www.oecd.org/dataoecd/32/18/31557724.pdf](http://www.oecd.org/dataoecd/32/18/31557724.pdf)
- ii. Shleifer A., Vishney R. (1997), *A Survey of Corporate Governance*, *Journal of Finance* 52, 737-783
- iii. Gomez P., Harry K. (2005), *Democracy and the Evolution of Corporate Governance* *Corporate Governance*, Volume 13, Number 6, pp. 739-752

#### 2. The theoretical framework of CG

- a. From the agency cost theory to the stakeholder theory
- b. The institutional theories of the firm
- c. Firm paradigms in economics and management theory
- d. The Italian perspectives of CG
- e. International research mainstreams in CG

#### *Papers and readings*

- i. Jensen M., Meckling W. (1976), *The Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, *Journal of Financial Economics* 3, 305-360

- ii. Yermack D. (2010), *Shareholder Voting and Corporate Governance*, Annual Review of Financial Economics
- iii. Clarke T. (ed.) (2004). *Theories of corporate governance*. London: Routledge

### 3. **Financial markets, institutional investors and corporate governance: the international context**

- a. Anglo-American forms of control and related capitalism
- b. German and Japanese form of control and related capitalism
- c. The “Latin” and Italian path towards capitalism
- d. The SMEs (Small Medium Enterprises) in the Italian market
- e. The division of responsibilities among different supervisory, regulatory and enforcement authorities

#### *Papers and readings*

- i. Doidge C., Karolyi G., Stulz R. (2007), *Why do Countries Matter so much for Corporate Governance*, Journal of Financial Economics, 86, pp. 1-39
- ii. Aguilera R.V., Jackson G. (2003), *The cross-national diversity of corporate governance: dimensions and determinants*, Academy of Management Review, Volume 28, Issue 3, pp. 447-465
- iii. Hopt K.J., Hideki K., Baum H. (2005), *Corporate Governance in Context: Corporations, States, and Markets in Europe, Japan, and the U.S.* Oxford: Oxford University Press

### 4. **Key issues in CG**

- a. The structure of CG regulation: the body of principles acting worldwide and in single countries
- b. Interaction among boards, committees and statutory auditors in different kinds of governance structures
- c. The role and composition of the board of directors
- d. The role and composition of the auditory systems
- e. The remuneration of directors and senior executives

#### *Papers and readings*

- i. Klein A. (2002), *Audit committee, board of director characteristics, and earnings management*, Journal of Accounting and Economics, Volume 33, Issue 3, pp. 375-400
- ii. DeFond M.L., Hung M. (2004), *Investor protection and corporate governance: evidence from worldwide CEO turnover*, Journal of Accounting Research, Volume 42, Issue 2, pp. 269-312
- iii. Hillier D., McColgan P. (2006), *An Analysis of Changes in Board Structure during Corporate Governance Reforms*, European Financial Management, Volume 12, Issue 4, pp. 575-607
- iv. Coles J., Daniel N., Naveen L. (2008), *Boards: Does One Size Fit All*, Journal of Financial Economics, 87, 329-356
- v. Fich E., Shivadasani A. (2006), *Are Busy Boards Effective Monitors*, Journal of Finance, 61, 689-724
- vi. Fich E. (2005), *Are Some Outside Directors Better Than Other? Evidence From Director Appointments by Fortune 1000 Firms*, Journal of Business, 78, 1943-1971
- vii. Adams R., Ferreira D. (2009), *Women in the Boardroom and Their Impact on Governance and Performance*, Journal of Financial Economics, 94, 291-309
- viii. Cai J., Garner J., Walking R. (2009), *Electing Directors*, Journal of Finance, 64, 2389-2421

## 5. **The internal control system**

- a. Identifying, measuring, managing and monitoring corporate risks
- b. Different models of internal control systems
- c. The compliance risks
- d. The risk management function
- e. The system of internal audit

### *Papers and readings*

- i. Bhimani A. (2009), *Risk management, corporate governance and management accounting: emerging interdependencies*, Management Accounting Research
- ii. DeFond M., Hann R., Hu X. (2005), *Does the Market Value Financial Expertise on Audit Committees of Board of Directors*, Journal of Accounting Research, n. 43, 153-194
- iii. Melis A. (2004), *Corporate Governance Failures. To What Extent is Parmalat a particularly Italian Case?* Corporate Governance: An International Review, Volume 13, No. 4, pp. 478-488
- iv. Srinivasan S. (2005), *Consequences of financial reporting failure on outside directors: evidence from Accounting Restatements and Audit Committee Members*, Journal of Accounting Research, n. 43, 291-334

## 6. **The CG in SMEs**

- a. International research about SMEs
- b. The family business
- c. The relationship between family and corporate level
- d. The succession problems in SMEs and family business
- e. Information quality in SMEs and family business

### *Papers and readings*

- i. Carney M. (2005), *Corporate Governance and Competitive Advantage in Family-Controlled Firms*, Entrepreneurship and Practice, Vol. 29, n. 3, 249-265
- ii. Mork R., Yeung B. (2003), *Agency problems in Large Family Business Groups*, Entrepreneurship and Practice, Vol. 27, n. 4, 367-382
- iii. Bartholomeusz S., Tanewski G.A. (2006), *The Relationship between Family Firms and Corporate Governance*, Journal of Small Business Management, Vol. 44, n. 2, 245-267
- iv. Lane S., Astrachan J., Keyt A., McMillan K. (2006), *Guidelines for Family Business Boards of Directors*, Family Business Review, Vol. 19, 2, 147-167

## 7. **The CG in a holistic corporate perspective**

- a. Governance and corporate social responsibility
- b. Governance and corporate strategy
- c. Governance and corporate performance

### *Papers and readings*

- i. Aguilera R.V., Williams C.A., Conley J. M., Rupp D.E. (2006), *Corporate Governance and Social Responsibility: a comparative analysis of the UK and the US*, Corporate Governance: An International Review, Volume 14, Issue 3, pp. 147

- ii. Daily C.M., McDougall P.P., Covin J.G., Dalton D.R. (2002), *Governance and strategic leadership in entrepreneurial firms*, Journal of Management, Volume 28, Issue 3, pp. 387-412
- iii. Ashbaughe-Skaife H., Collins D., LaFond R. (2006), *The effects of corporate governance on firms' credit ratings*, Journal of Accounting and Economics, Vol.42, 1-2, pp. 203-243

#### 8. CG and value creation

- a. Accountability in CG systems
- b. Compliance, knowledge and performance in an integrated CG View
- c. Relationship among CG, corporate information and value production for stakeholders

##### *Papers and readings*

- i. Bushman R. et al. (2004), *Financial accounting information, organizational complexity and corporate governance systems*, Journal of Accounting and Economics, Vol. 37, Issue 2, pp.167-201
- ii. Klein A. (1998), *Firm performance and Board Committee Structure*, Journal of Law and Economics, 41, 275-303
- iii. Chhaochharia V., & Grinstein Y. (2007), *Corporate governance and firm value. The impact of the 2002 governance rules*, The Journal of Finance, Vol.62, No.4, pp.1789-1825
- iv. Ho S., Wong K.S. (2001), *A study of the relationship between corporate governance structures and the extent of voluntary disclosure*, Journal of International Accounting, Auditing, and Taxation, Vol. 10, Issue 2, pp.139-156

#### **Attending the course – Evaluation of attendants**

After *ex cathedra* lectures, some selected papers will be assigned to Ph.D. students, who have to present and discuss them in classroom, in order to be introduced to some latest developments in the field and to be aware of possible research topics.

The evaluation of ph.d. students is based:

- a. 40% on classroom presentation and discussion of papers;
- b. 60% on a paper to be written by each student at the end of the course.

#### **Lecturers**

- Alessandro Lai, Ph.D., Professor of Accounting, Verona University
- Other incoming lecturers will share the presentation and discussion of topics
- A tutor may be assigned to Ph.D. students