

# **Corporate Governance**

## **Module Introduction and Overview**

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### **Contents**

<b>1</b>	<b>Introduction to the Module</b>	<b>2</b>
<b>2</b>	<b>The Module Authors</b>	<b>2</b>
<b>3</b>	<b>Study Resources</b>	<b>2</b>
<b>4</b>	<b>Module Overview</b>	<b>4</b>
<b>5</b>	<b>Learning Outcomes</b>	<b>5</b>

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## 1 Introduction to the Module

This module, *Corporate Governance*, is specially designed for the postgraduate study of such areas as management, finance, financial law, corporate law, economics and related subjects. The module is designed to increase the depth of your understanding of corporate governance issues. As corporate governance is a multi-disciplinary subject – covering such topics as law, politics, management, finance, and economics – you will find that the module will add to previous study of any of these disciplines. A previous knowledge of corporate governance is not required.

Upon successful completion of this module, it is hoped that students with a variety of backgrounds will understand the key elements of corporate governance and its importance to the international economy. In order to achieve this, a strong emphasis is placed on the relationship between theoretical concepts and real world issues. It is therefore hoped that the module can make a real contribution to your in-depth understanding of the relevant corporate governance issues.

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## 2 The Module Authors

**Laixiang Sun** is Professor of Chinese Business and Management at the Centre for Financial and Management Studies, SOAS University of London. He is also affiliated with the International Institute for Applied Systems Analysis in Laxenburg, Austria, and Guanghua School of Management at Peking University, Beijing, China. He has published several academic books and a large number of research articles in international peer-reviewed journals. One of his textbooks, *Ownership and Governance of Enterprises: Recent Innovative Developments*, from which extracts are used in this module, is based on a research project directed by him at the United Nations University.

**Damian Tobin** is Lecturer in Chinese Business and Management at the Centre for Financial and Management Studies, SOAS University of London and is academic director of the International Management for China Distance Learning programme. He has published topics related to China's enterprise reform, corporate governance and public finance. His articles have appeared in such academic journals as *World Development*, *Corporate Governance: An International Review*, and *Asian Case Research Journal*. He has also contributed to private sector studies on such topics as corporate governance practices in Hong Kong and China, the relationship between big business and the political system, and Ireland's economic performance.

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## 3 Study Resources

This study guide is your central learning resource as it structures your learning unit by unit. Each unit should be studied within a week. It is designed in the expectation that studying the unit and the associated core

readings will require 15 to 20 hours during the week, but this will vary according to your background knowledge and experience of studying.



### Key texts

In addition to the study guide you must read the assigned chapters in the following key texts:

Hansmann H (2000) *The Ownership of Enterprise*, Boston MA and London, The Belknap Press of Harvard University Press.

Monks RAG and N Minow (2011) *Corporate Governance*, 5th Edition, John Wiley & Sons.

Henry Hansmann's book is a very reader-friendly book, particularly its description of the theoretical concepts of ownership and control. The book by Robert Monks and Nell Minow (2011) was chosen for its up-to-date description of recent corporate governance events. It also provides some useful case studies.

### Module readings

In your module readings, you are provided with a selection of academic articles and extracts from books, which you are expected to read as part of your study of this module. You will note from reading them that the topics covered in these articles often vary widely from the study guide. The module readings articles are often more technical or adopt a more in-depth approach. This should not put you off, as many were written with an academic audience in mind. These articles were selected so that the central arguments and concepts could be understood and appreciated at a level appropriate to this module.

### Optional reading

You are provided with all the reading essential for this module, and we do not expect you to undertake extra reading on your own, partly because not all students have ready access to good libraries or bookshops. However, the reference section of each unit lists academic articles, book chapters or web based sources that you can choose to read if you wish to further investigate a particular topic. These readings can be accessed on the Internet, but it is important to note that they will not be assessed in examination or assignments.

Although not mandatory, we think that you will enrich your study of this module by looking at such articles. Indeed, you are encouraged to choose your own additional reading on topics related to corporate governance. You can do this through searching the Internet and by making use of the online academic journals through the Library resources on the CeFiMS Virtual Learning Environment (VLE).

You are also recommended to browse through your key texts (Hansmann, and Monks and Minow) for additional coverage of the topics studied in this module.

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## 4 Module Overview

### Unit 1 Introduction to Corporate Governance

- 1.1 Introduction
- 1.2 Approaches to Corporate Governance
- 1.3 The Evolution of Corporate Structure
- 1.4 Corporate Governance, Capital Formation, Corporate Finance and Economic Growth
- 1.5 Concluding Remarks

### Unit 2 Theory of the Firm

- 2.1 Competition and Cooperation
- 2.2 Market Contracting Costs vs Ownership Costs
- 2.3 Recent Unconventional Developments
- 2.4 More on Complementary Perspectives
- 2.5 Concluding Remarks

### Unit 3 Corporate Governance and the Role of Law

- 3.1 The Basic Question in the Debate
- 3.2 Competing Explanations
- 3.3 The Recent Rise of Equity Culture in the EU
- 3.4 A Historical Perspective
- 3.5 Implications for Transition and Developing Economies

### Unit 4 Corporate Governance around the World

- 4.1 A Framework for Comparison
- 4.2 Equity Market-based System vs Bank-led System
- 4.3 Family-based Corporate Governance in Asia
- 4.4 The Pyramid Structure and the Internal Capital Market
- 4.5 Concluding Remarks

### Unit 5 Board Composition and Control

- 5.1 Board Composition and Control: Practical and Theoretical Trade-offs
- 5.2 The Typical Anglo-American Board: Past and Present
- 5.3 The Legal Framework Governing the Board
- 5.4 The Board Management Relationship in Reality
- 5.5 Director Selection
- 5.7 Concluding Remarks

### Unit 6 CEO Compensation

- 6.1 Introduction: Major Challenges Faced by CEOs
- 6.2 Why CEOs Fail
- 6.3 An 'Ideal' CEO
- 6.4 CEO Compensation and Employment Contract
- 6.5 Stock Options
- 6.6 Case Study: General Electric
- 6.7 Concluding Remarks

## Unit 7 International Governance

- 7.1 Corporate Governance has Gone Global
- 7.2 Why Do Companies List Abroad?
- 7.3 Crisis-Driven Reforms in Emerging Markets
- 7.4 Reforms in the Developed World
- 7.5 The Case of Daimler Chrysler
- 7.6 Concluding Remarks

## Unit 8 Overview of Corporate Governance Codes

- 8.1 The OECD Principles (1999-2004)
- 8.2 The International Corporate Governance Network (ICGN) Principles
- 8.3 Other Leading International Codes
- 8.4 Reports on the Observance of Standards and Codes
- 8.5 Concluding Remarks

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## 5 Learning Outcomes

When you have completed your study of this module you will be able to:

- outline and discuss the key legal, political and economic features of the major corporate governance systems found around the world
- analyse how corporate governance systems influence performance, including both the performance of individual firms and the allocation of capital within a country
- discuss the evolution of diverse ownership and governance structures across different economies
- evaluate theories of the firm, and explain how they are relevant to the diverse range of ownership structures that exist in reality
- address such practical questions, as how should the board of directors and executive teams be composed; how should executives and board of directors be remunerated given the legal, political and economic framework in the country; 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?
- explain why the quality of corporate governance is relevant to capital formation
- describe why systematic failure of corporate governance can lead to failure of confidence that could spread from individual firms to entire markets or economies
- discuss the role of corporate governance codes and evaluate their usefulness in achieving better corporate governance practices.