IBUS 707 - COMPARATIVE INSTITUTIONAL SYSTEMS
SPRING 2011
Monday & Wednesday, 8:40AM- 9:55PM
Room: BA 302

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COURSE DESCRIPTION AND OBJECTIVES

Understanding corporate governance systems and practices is increasingly important in the wake of the recent corporate scandals and failures worldwide, including the U.S., and the financial crises of 1997-1998 and 2007-2008. Corporate governance relates to the mechanisms that reduce agency problems in a corporation, and ensures that providers of resources to the corporation obtain a return on their investments. This course aims to provide students with a thorough understanding of the effectiveness of various corporate governance mechanisms in an international setting. In particular, we will examine two types of governance mechanisms: internal and external. Internal mechanisms include ownership structure, board of directors, and executive compensation. External mechanisms include legal institutions, securities regulation, takeover markets, and accounting and transparency standards. The interactions between these mechanisms, and their impact on firm performance, the cost of capital, and financial and economic development will also be analyzed. Finally, we will discuss the differences among the various corporate governance systems (e.g., Anglo-American, Continental European, German, and Japanese) and the convergence in international corporate governance practices.

After completing this course, you should know:

- The separation of ownership and control in modern corporations and the resulting agency conflicts;
- The importance of corporate governance to corporations;
- Corporate ownership patterns around the world, and how they determine the extent and nature of corporate governance problems;
- The various mechanisms of corporate governance, especially ownership structure and shareholder activism, the board of directors, executive compensation, accounting transparency and auditor quality, the legal system, government regulations, and the corporate takeover market;
- How these corporate governance mechanisms function, interact and relate to firm value and its cost of capital;
• How legal institutions protecting investors vary across countries, and how they affect cross-country differences in corporate governance;
• How cross-country institutional differences affect the effectiveness of corporate governance mechanisms.

READINGS AND COURSE MATERIALS

The lectures will be based on several sources as no single textbook comprehensively covers all the material in this course.


These references will be supplemented by relevant research papers and articles from academic and practitioners journals, which will be available through the course website.

METHOD OF INSTRUCTION AND COURSE REQUIREMENTS

The course essentially consists of lectures by the instructor and presentations of key academic articles by the instructor and the students. Although all course material is posted on the course webpage on Blackboard, students are expected to attend each class regularly and punctually, and actively participate in class activities. Much of the in-class activities involve articles presentations and hence require your presence. According to the University student attendance policy, absence from more than 10 percent of the scheduled class sessions, whether excused or unexcused, is excessive. Excessive tardiness and absence will lower significantly your participation grade, affect your final grade, and will be reported to the administration. If for some legitimate reasons you were to be late or had to leave class early, you should let me know in advance. Students who expect excessive absences due to participation in University-sponsored events are requested to meet with me early in the semester. More details on the University attendance policy can be found at: http://bulletin.sc.edu/content.php?catoid=10&navoid=1781.

Moreover, to be efficiently involved in these activities and to maximize your learning from the course, it is necessary that you prepare the assigned readings before each class. To ensure an adequate learning environment, make sure that your cell phone and other electronic devices are OFF during the class. Eating is absolutely prohibited in class. More generally, all students are expected to be punctual, attentive to the lectures and class discussions, and respectful toward their colleagues and the instructor.
COURSE GRADING

The final grade in the course will be based on the following scheme:

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<tr>
<th>Component</th>
<th>Weight</th>
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<tr>
<td>Participation</td>
<td>10%</td>
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<tr>
<td>Presentation</td>
<td>20%</td>
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<tr>
<td>Group Project</td>
<td>25%</td>
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<tr>
<td>Tests</td>
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<td><strong>Total</strong></td>
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The above weights apply to all students and do not depend on your partial performance.

**Participation:** Takes into account the quality of your questions and answers, active participation in class discussions, and class consistent punctual attendance.

**Presentation:** Each group of students will present an article on a topic that is covered in class. The topic will be selected in consultation with the instructor on a first-come first-serve basis. Each presentation will be followed by class discussion and questions from the audience, and therefore, I expect every student (in addition to the presenter) to read the assigned paper. The presentation guidelines will be posted on the course website.

**Group Project:** The group project consists in describing, evaluating and comparing corporate governance practices in a set of countries, including the U.S. The governance aspects that will be analyzed relate to the internal and external corporate governance mechanisms covered in class. Although firm-level governance data will be made available to the students, the project will involve assembling firm-level data from various sources, including the World Bank. The analysis should also cover how major economic reforms such as stock liberalization and privatization influence these practices and contribute to convergence towards international standards. Note that the project requires that students will produce descriptive statistics, simple test statistics, and regression analyses, and therefore I expect that you are able to use Excel and statistical software. Each group will present the results of their analysis. Additional information on the group project will be posted on the course webpage.

**Tests:** There will be three tests during the term that cover text chapters, articles and presentations, contributing 45% to your final grade. There will be no make-up exam without a valid excuse (medical or emergency). Further details, including dates, will be announced in class.

The experience shows that class attendance and participation in class discussions, careful attention to the course material, and preparedness before coming to class will greatly and logically improve your grades.

UNIVERSITY OF SOUTH CAROLINA POLICIES

It is the instructor’s responsibility to ensure compliance with the University of South Carolina Honor Code and to report any violation observed.

Excerpts from the Honor Code indicate:

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline. All forms of academic dishonesty are
prohibited. These include cheating, plagiarism, lying in academic matters, fraud, bribery, unauthorized access to tests and examinations.

This Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:

1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.
2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person’s work or ideas without proper acknowledgment of source.
5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor’s ability to evaluate accurately a student’s competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

For more information regarding the University of South Carolina policies related to academic integrity is available on the Internet at: http://www.sc.edu/academicintegrity/
TENTATIVE COURSE SCHEDULE

The following presents a tentative outline of topics that will be covered. Some topics will be covered more in-depth than others depending on time constraints and the progress of the class. Any changes will be previously announced and posted on the course website. Make sure to check the section “Announcements” on the course website before every class!

Topic 1: Corporation and Corporate Governance: An Overview

- KNM, Chapter 1

Topic 2: Theoretical Foundation of Corporate Governance: The Agency Theory


Topic 3: The Internal and External Mechanisms of Corporate Governance


Topic 4: Ownership and Control

- KNM, Chapter 7
- Attig, N., O. Guedhami and D. Mishra, 2008, Multiple Large Shareholders, Control Contests, and Implied Cost of Equity, Journal of Corporate Finance 14, 721-737. (SP)

**(SP) Student Presentations**

**Topic 5: The Board of Directors**

- **KNM, Chapter 4**

**(SP) Student Presentations**

**Topic 6: Executive Compensation**

- **KNM, Chapter 2**

**(SP) Student Presentations**

**Topic 7: Legal Protection and its Consequences**


**(SP) Student Presentation**

**Topic 8: The Market for Corporate Control**

- KNM, Chapter 8


- KNM, Chapter 3


**(SP) Student Presentations**
Topic 10: Corporate Social Responsibility

- KNM, Chapter 11

Topic 11: Other External Mechanisms


Topic 12: Comparative Corporate Governance Systems and Convergence