Financial Research Network

Course Syllabus

FIRN COURSE TITLE

Corporate Governance

COURSE COORDINATOR

Professor Michelle Lowry
TD Bank Professor Finance
Drexel University
michelle.lowry@drexel.edu

COURSE DESCRIPTION and OBJECTIVES

This is a Ph.D.-level course in corporate governance. Topics of focus include the monitoring and advising roles of Boards of Directors, the role of incentive contracts at the managerial level, the role of company-level structures such as classified boards, and the role of country-level features such as limited liability and regulations. We will cover a combination of fundamental articles as well as more recent articles. In addition, we will be covering some econometric techniques that are particularly useful in corporate finance.

Our objective is threefold: first, to provide you with an overview of this literature to give you a framework to evaluate research within this area; second, to help you develop your own research ideas; and, third, to prepare you for the job market. This is clearly an overly ambitious agenda for one week – but the course should provide you the necessary foundation.

COURSE TIMETABLE

Sunday July 1st	**Starting with the Basics** Jensen and Meckling (1976), Opler, Pinkowitz, Stulz, Williamson (1999)
	The Fundamentals of Governance Gompers, Iishi and Metrick (2003)
Monday July 2nd	**When Does Governance Matter Most?** Giroud and Mueller (2011)
	CEOs Bertrand and Mullainathan (2001); Malmendier and Tate (2009)
Tuesday July 3rd	**Classified Boards** Cohen and Wang (2013)

	One Size Does [NOT] Fit All Coles, Daniel and Naveen (2007), Field, Lowry and Mkrtchyan (2013)
Wednesday July 4th	Consultation Time and Work Time
Thursday July 5th	**Shareholder Influence** Appel, Gormley and Keim (2016), Iliev and Lowry (2015), Li and Wu (2018)
Friday July 6th	**Shareholder Activism** Brav, Jiang and Kim (2015), Boyson, Gantchev, Shivdasani (2017), Agarwal (2011)
Saturday July 7th	**Creditor Governance** Nini, Smith, Sufi (2012); Felato and Liang (2016)
	Gender Ahern and Dittmar (2012)

Each day, we will discuss the papers noted. During class I will frequently mention other related papers. If anybody is particularly interested in a topic and would like some additional cites, please just ask!! There are so many good papers, but we obviously only have time to cover a small fraction.

We will concentrate much of the discussion on the economics behind the paper. Why did this paper end up in an A-level journal? What do we learn from it? As you are reading each paper, I encourage you to think about what the "main figure / table" is from the paper. Most papers have 8-10 tables and a variety of figures. But nevertheless, one of these really contains the key finding of the paper.

COURSE PRE-REQUISITE KNOWLEDGE

Students should have a good understanding of PhD-level microeconomics. Please sure to read the material for the first day PRIOR to coming to class. I also highly recommend the following as basic reference material / background reading that will be highly relevant for this class (and for nearly all research in empirical corporate finance):

- Roberts, M., Whited, T., 2013. Endogeneity in empirical corporate finance. Handbook of the Economics of Finance 2, 493 – 572.
- Gormley, T., Matsa, D., 2014. Common errors: how to (and not to) control for unobserved heterogeneity. Review of Financial Studies 27, 617 - 661
- Petersen, M., 2009. Estimating standard errors in finance panel data sets: comparing approaches. Review of Financial Studies 22, 435 – 480.

ASSESSMENT

The assessment consists of three components:

1. A short research proposal within the area of corporate governance. Importantly, this CANNOT be a project that you have worked on for another class or to fulfil any other requirement in the PhD program. If you have questions on whether an idea is sufficiently new, please discuss with me. The proposal must include a well-motivated research question (why do we care), the contribution to prior literature (why do we not already know the answer to this question), and an overview of how you will empirically address this question (data on which you will rely, basics of how you will specify tests, identification if relevant). This is worth a total of 25%, and it will be due two weeks after the conclusion of the course, i.e., on Saturday July 21st. It should be approximately 5 pages, double-spaced.
2. Paper summaries: each day (excluding the first day), please select one of the papers that we will be discussing and write a 2-page summary. The summary should include the following points (please clearly denote in your summary each of these points). These will be handed in at the beginning of each class. Each summary is worth 15%, for a total of 75%.
   - Main research question of the paper (3 – 5 sentences)
   - Contribution to prior literature (1-2 paragraphs)
   - Main empirical test: what is the specification, and what is the main prediction?
   - Endogeneity: is endogeneity an issue in this paper, and why or why not. If it is an issue, did the authors address it and if so how. Do you find the authors' handling of the issue convincing?
   - Critique or Future research idea: Please do one of the following (~ 1 -2 paragraphs)
     - Important critique – if you were refereeing the paper, what would your biggest concern be (Only choose this option if you have an important concern)
     - Research extension – discuss one research idea, which represents an extension of the analysis in this paper. The idea should be substantial enough to have the potential of being an independent paper.

FIRN COURSES GRADING POLICY

A standardised grading system has been implemented across all FIRN endorsed PhD courses and applies to ALL PhD students undertaking the course. Course presenters are asked to calculate final assessment grades using a percentage basis which can then be converted to a grading of 1-7 as follows:

7	***– 85% +***	***– Pass with High Distinction/H1 Honours***
6	***– 75-84%***	***– Pass with Distinction/H2 Honours***
5	***– 65-74%***	***– Pass with Credit/H3 Honours***
4	***– 50-64%***	***– Pass at PhD level***
3	***– <50%***	***– Pass at Masters level***
2		***– Fail - Did not complete all assessments***
1		***– Fail - Did not complete course***

LIST OF TEXTS AND READINGS

1. Jensen, Michael C. and William H. Meckling, 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3, 305-360. (Parts 1-3)
2. Opler, T., Pinkowitz, L., Stulz, R., Williamson, R., 1999. The determinants and implications of corporate cash holdings. Journal of Financial Economics 52, 3 – 46.
3. Gompers, P., Ishii, J., Metrick, A., 2003, Corporate Governance and Equity Prices, Quarterly Journal of Economics 118, 107-115.

4. Giroud, X., Mueller, H., 2011. Corporate governance, product market competition, and equity prices. Journal of Finance 66, 563 – 600.
5. Bertrand, M., Mullainathan, S., 2001. Are CEOs rewarded for luck? The ones without principals are. Quarterly Journal of Economics 116, 901-932.
6. Malmendier and Tate, 2009. Superstar CEOs. Quarterly Journal of Economics 124, pp 1593-1638.

7. Cohen, A., Wang, C., 2013. "How Do Staggered Boards Affect Shareholder Value? Evidence from a Natural Experiment," *Journal of Financial Economics* 110, 627-641.
8. Coles, Jeffrey, Naveen Daniel, and Lalitha Naveen, 2007. "Boards: Does One Size Fit All?" *Journal of Financial Economics* 87, 329-356.
9. Field, L., Lowry, M., Mkrtchyan, A., 2013. "Are Busy Boards Detrimental?" *Journal of Financial Economics* 109, 63-82.

10. Appel, I., Gormley, T., Keim, D., 2016. Passive investors not passive owners. Journal of Financial Economics 121, pp111 – 141.
11. Iliev, P., Lowry, M., 2014. Are mutual funds active voters? Review of Financial Studies 28, 446 – 485.
12. Li, J., and Wu, A., 2017. Do corporate social responsibility engagements lead to real environmental, social and governance impact? Working paper.

13. Brav, A., Jiang, W., Kim, H., 2015. The real effects of hedge fund activism: productivity, asset allocation, and labor outcomes. Review of Financial Studies 28, 2723 – 2769.
14. Boyson, N., Gantchev, N., Shivdasani, A., 2017. Activism Mergers. Journal of Financial Economics 126, 54 – 73.
15. Agarwal, A. 2011. Corporate governance objectives of labor union shareholders: evidence from proxy voting. *Review of Financial Studies*, forthcoming.

16. Nini, G., Smith, D., Sufi, A., 2012. Creditor control rights, corporate governance, and firm value. Review of Financial Studies 25, 1713 – 1761.
17. Felato, A.., Liang, N., 2016. Do creditor rights increase employment risk? Evidence from loan covenants. Journal of Finance 71, 2545 – 2590.
18. Ahern, K., Dittmar, A., 2012. The changing of the boards: the impact on firm valuation of mandated female board representation. Quarterly Journal of Economics 137 – 197.

STATEMENT ON PLAGIARISM

Plagiarism is a broad term referring to the practice of appropriating someone else's ideas or work and presenting them as your own without acknowledgment. Plagiarism is literary or intellectual theft. It can take a number of forms, including:

- copying the work of another student, whether that student is in the same class, from an earlier year of the same course, or from another tertiary institution altogether
- copying any section, no matter how brief, from a book, journal, article or other written source, without duly acknowledging it as a quotation
- copying any map, diagram or table of figures without duly acknowledging the source
- paraphrasing or otherwise using the ideas of another author without duly acknowledging the source.

Whatever the form, plagiarism is unacceptable both academically and professionally. By plagiarising you are both stealing the work of another person and cheating by representing it as your own. Any instances of plagiarism can therefore be expected to draw severe penalties.

Cheating means to defraud or swindle. Students who seek to gain an advantage by unfair means such as copying another student's work, or in any other way misleading a lecturer about their knowledge or ability or the amount of work they have done, are guilty of cheating. Students who condone plagiarism by allowing their work to be copied will also be subject to severe disciplinary action.