

Spring Semester, 2004

Fridays: 14:10 – 17:10

Room 115, Life Science Building I

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Course Description:

This course highlights how corporate governance around the world effectively depends on structural factors, such as the legal system, the quality of financial institutions, as well as cultural roots. In addition, firm-specific choices, including capital structure, internal controls, and executive compensation systems are equally important.

Not only directors and supervisors but also employees and shareholders must perform their functions to raise corporate governance. The ultimate goal of this governance system tends to protect shareholders' rights and interests. We will construct a “Governance Index” which measures the effectiveness of governance system. We will discuss this issue in class intensively.

Independent directors with competence and integrity are installed to strengthen the powers of the board of directors. Shareholders recommend natural persons who fulfill the qualifications set forth by the TSE or GTSM. After an objective assessment of the board of directors, those recommended are elected independent directors in the shareholders meeting. In accordance with related provisions, independent directors must attend courses to acquire knowledge of law, finance or accounting before the company applies for initial listing. If independent directors violate the relevant laws and regulations, they shall be liable for the damages and could face criminal charges. Therefore, it is reasonable (why?) for shareholders to trust independent directors. To define and measure “Independence” of directors will be discussed or debated in class.

Corporate governance in Taiwan is still at very preliminary stage. Even promoting corporate governance system or concept is a challenging task. However, in the aftermath of the “meltdown” of significant companies such as Enron, corporate governance can never be over emphasized. Hopefully, through collective efforts we will recognize that corporate governance is not only a fashionable slogan but also a vehicle to creating shareholders' wealth and re-establishing “social fairness” in a way.

Course Materials:

The required text for the course is *Corporate Governance and Rating System* by Yeh, Lee, and Ko. Some of following papers and materials can be downloaded through <http://gf.nthu.edu.tw/~jtyang>.

[CEOs' Compensation]

1. Yang, J. and Carleton, W., 2002. Rescission and Repricing of Executive Stock Options. Working Paper, University of Arizona and National Tsing Hua University.
2. Yang, J. and Carleton, W., 2002. Repricing Alternatives, Optimal Repricing Policy, and Early Exercises of Executive Stock Options. Working Paper, University of Arizona and National Tsing Hua University.
3. Core, J., Holthausen, R., and Larcker, D., 1999. Corporate Governance, Chief Executive Officer Compensation, and Firm Performance. *Journal of Financial Economics* 51, 371-406.

[Corporate Governance and Firm Performance]

4. Gompers, P., Ishii, J., and Metrick, A., 2003. Corporate Governance and Equity Prices. *Quarterly Journal of Economics* 118, February 2003.
5. Agrawal, A., and Knoeber, C., 1996. Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders. *Journal of Finance and Quantitative Analysis* 31, 377-397.

6. Bhagat, S., and Black, B., 1997. Board Composition and Firm Performance: The Uneasy Case for Majority-Independent Boards. Working Paper, Columbia University, New York.
7. Bhagat, S., and Black, B., 1999. The Uncertain Relationship between Board Composition and Firm Performance. *Business Lawyer* 54, 921-963.
8. La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny, 2002. Investor Protection and Corporate Valuation. *Journal of Finance*, 1147-1170.
9. Business Week, 2002 January 24, "The Best and Worst Corporate Boards," Cover Story.

[Shareholders and Board of Directors]

10. Carson. E., 2002. Factors Associated with the Development of Board Subcommittees. *Corporate Governance: An International Review* 10, 4-18.
11. Claessens S., Djankov, S., and Lang, H. P., 2000. The Separation of Ownership and Control in East Asian Corporation. *Journal of Financial Economics* 58,81-112.
12. Claessens, S., Djankov, S., Fan, J., and Lang, H.P., 2002. Disentangling the Incentive and Entrenchment Effects of Large Shareholdings. *Journal of Finance* 57, 2741-2771.
13. Gillan. S., and Stark, L., 2000. Corporate Governance Proposals and Shareholder Activism: The Role of Institutional Investors. *Journal of Financial Economics* 57, 275-305.
14. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R., 2000. Investor Protection and Corporate Governance. *Journal of Financial Economics* 58, 3-27.
15. Claessens, S. and Fan, J., 2003. Corporate Governance in Asia: A Survey. Working paper.
16. Shleifer, A., and Vishny, R., 1997. A Survey of Corporate Governance. *Journal of Finance* 52, No. 2.

Grading:

Item	Class Contribution	Midterm Exam	Final Project	Assignments	Presentation
Weight	15%	20%	20%	20%	25%

Policies:

- Academic dishonesty will not be tolerated.
- There will be no make-up work for extra credit to improve your grade.
- Students are responsible for the grade they earn. It is not considered professional to beg for a grade which has not been earned.
- No "Incomplete" will be given for marginal or failing work at the end of the semester. If you intend to drop the course, you must do so officially by the final drop date.
- No late assignment or project will be accepted.