

EMLE – Corporate Governance and Finance – 2023

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Course description

After a brief introduction, this course takes off with a law and economic approach of how a corporation is organized making use of the corporation's main characteristics: Legal personality, Limited liability, Transferability of shares, Delegated management, and Investor ownership. Some characteristics influence corporate governance rules and practices. The latter characteristic will also be used to provide in some of the basics of corporate finance of corporations. It will provide all students with a different undergraduate to be familiarized with both the (legal) structure of the corporation as well as the financial structure of the corporation.

Next in the second part, the lectures explore corporate governance. First the different perspectives on corporate governance are sketched, as well as the structure and position of corporate governance codes in a comparative legal perspective. The recent developments of corporate governance will provide students with insights in the current corporate practices. The majority of the second part will develop the different governance techniques developed to mitigate corporate conflicts. In particular, the conflicts of interests between management and shareholders and the conflicts between majority and minority shareholders will be studied. Mechanisms that mitigate these conflicts are inter alia empowerment of shareholders (including the important corporate governance line of research of 'law and finance'), independent directors, board diversity, board committees, remuneration schemes, the market for corporate control and takeovers, disclosure of information, internal control mechanisms, external audit, squeeze-outs, etc. These mechanisms addressing the alignment of the different incumbents' interests will be inspected in more detail. Each of the instruments will be legally addressed as well as economically assessed making use of a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats).

Next, in the third part but considering time constraints, the lectures target corporate finance. First, the time value of money, net present value, and the debt and equity structure are presented. Second, the relationship between risk and return in a perfect market will be explored. Third, the corporate finance part is emphasizing the valuation of companies. In particular the most important valuation techniques will be studied: the simple valuation methods, multiples and discounted cash flow. Time constraints could shift part of the topics to self-studying with a Q&A in class.

Course schedule and compulsory reading (next to presentations and class notes)

Part 1: the corporation and its five characteristics

Reading: R. Kraakman e.a., *The anatomy of corporate law*, OUP 2017, pp.1-19 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=568623);

OECD, *Corporate Governance Factbook 2021*, pp. 17-32.

Part 2: corporate governance

2.1: introduction to corporate governance

Reading: K. Hopt, "Comparative corporate governance: The state of the art and international regulation", *American Journal of Comparative Law* 2011, pp. 1-19;

OECD, *Corporate Governance Factbook 2021*, pp. 33-60.

2.2: Resolving corporate conflicts

2.2.1.: market for corporate control

Reading: S. Davidoff, *Takeover Theory and the Law and Economics Movement* (April 4, 2011). *Research Handbook on the Economics of Corporate Law*, Claire Hill, Brett McDonnell, eds., Edward Elgar, 2011-2012.

2.2.2.: shareholder empowerment

Reading: R. La Porta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny, "Law and Finance", *Journal of Political Economy* 1998, pp. 1113-1134 en 1151-1152;

R. La Porta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny, "Legal Determinants of External Finance", *Journal of Finance* 1997, pp. 1131-1150;

OECD, *Corporate Governance Factbook 2021*, pp. 71-89.

Assignment 1

2.2.3. board governance

Reading: Davies, Paul L. and Hopt, Klaus J., *Boards in Europe – Accountability and Convergence*, *American Journal of Comparative Law* 61 (2013) pp. 301-355;

OECD, *Corporate Governance Factbook 2021*, pp. 139-173 (pp. 160-165 is part of 2.2.4.).

Assignment 2

2.2.4.: executive remuneration

Reading: C. Frydman and D. Jenter, *CEO Compensation*, *Annual Review of Financial Economics*, 2010, nr. 2, pp. 75-102,

L. Bebchuk and J. Fried, *Executive Compensation as an Agency Problem*, *Journal of Economic Perspectives*, 2003, pp. 71-92.

OECD, *Corporate Governance Factbook 2021*, pp. 160-165.

2.2.5: Other instruments: information, audit and others

Reading: R. La Porta, F Lopez-de-Silanes and A. Shleifer, "What works in securities law", *Journal of Finance* 2006, 1-32.

Part 3: Topics of Corporate Finance

Recommended Reading: any corporate finance textbook (example Welch (available via: <http://book.ivo-welch.info/home/>)

Lecturing method

- Lectures: The course content will be discussed in interactive lectures. Students are expected to participate actively in class, express their views and discuss controversial issues. Prior reading of the material is essential. Slides will be provided prior to each session.
- Break-out sessions: in order to stimulate the debate, some break out sessions (depending on the available time) are organized. These are 20-30 minutes group work in class, in which students will be asked to answer questions on a specific topic relevant to the study session. Students' preparation, which must be handed in, will be followed by a class discussion.
- Assignments: two research papers (can be prepared in group) are required and debated during one of the lectures.

Lecturing Schedule

The lectures will take place on Tuesday afternoon from 13.00 to 17.00. The lectures are scheduled on Jan. 10, 24, 31, Feb. 7, 14, 21 and March 7, room 8.1. The written exam is rostered on March 17, room F, 13.00-16.00.

Expected learning outcomes

Students are expected to be able to provide insights in the framework within which governance practices evolve (in a comparative perspective) and to have (advanced) insights in the background to existing European and member state corporate governance regulation, including specific corporate governance features like independent directors, shareholder rights, audit committees, remuneration schemes and so on.

Students acquired the skills to critically evaluate governance arrangements and comment on the relationship between legal rules and economic realities, obtained the ability to analyse and comment on principles of corporate governance and the ability to draft other principles and rules related to corporate governance and the internal governance of the firm.

On completion of the course the student are expected to be able to provide insights in corporate finance related to the financial statements, time value of money, net present value, and the debt and equity structure.

Students acquired the skills to critically assess the valuation of company, and obtained the ability to analyse and comment on the valuation techniques used to identify the value of the corporation.

Method of assessment

Written open book exam (70%); two assignments (each accounting for 10% of the final mark); break outs (10%)

Retake: written open book exam (100%) related to the presentations, lectures, assignments and the reading materials (see course schedule)