

ACCT 574
Accounting in Global Business Environment
Leventhal School of Accounting
Marshall School of Business
University of Southern California

Spring 2017

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Course website: <https://blackboard.usc.edu>

Course objectives

- By the end of this course students will be able to identify how different business environments (e.g. legal system, social norms, system of government of the host country) inform a company's corporate governance and financial reporting systems.
- By the end of this course students will be able to analyze how a firm's financial reporting and corporate governance structures vary across countries.
- By the end of this course students will have adopted a global perspective whereby they can identify the corporate governance and reporting challenges and the mechanisms that can deal with these challenges.
- By the end of this course students will be able to extract key information from international business cases and present a logical argument in written form as well as a quantitative analysis using data exhibits.

Synopsis

The course adopts a multi-disciplinary approach, using theories from economics, law, political science and sociology, to provide an analytical framework for understanding the different ownership structures, corporate governance and financial reporting practice around the world. Specifically, we study how the differences in accounting practice across countries are primarily determined by business environment and the ownership and governance structures of the firms. This multi-disciplinary approach allows us to adopt an institutional and organizational perspective, rather than a legal or rule-based (in either corporate governance or GAAP) perspective, with an emphasis on exploring various governance mechanisms and accounting practice and their impact on mitigating agency costs and improving shareholder and stakeholder values of firms. With this framework, we will be able to perform better financial statement analysis by identifying the financial reporting and governance risks of these companies, and understanding the underlying reasons for these challenges.

In this course, we pay special attention to the challenges in corporate governance and financial reporting of companies in the Pacific Rim, and explore various mechanisms for strengthening their governance and accounting systems. This includes corporate governance and financial reporting issues of state-owned firms and entrepreneurial / family-controlled firms, which are prevalent in these economies. Combining both lecture- and case-based approaches, we tackle issues such as excess government intervention on state and non-state firms, accounting opacity and fraud, ineffective board monitoring, expropriation of controlling owners against minority shareholders, and succession in family firms. Our cases will cover accounting and governance issues of some large companies such as Enron (US), Alibaba (China), Samsung (Korea), Olympus (Japan), Petrobras (Brazil) and Satyam (India).

This course will benefit students that seek employment opportunities as an auditor in an audit firm, an investment banker in corporate finance, a consultant in corporate strategies for a consulting firm or corporate accountant and finance officer of a listed firm. Since we adopt a global perspective, it will further equip you to work in organizations that operate in a global environment. Having the ability to identify the corporate governance and reporting challenges and the mechanisms that can deal with these challenges from an institutional perspective, it would give you greater insight and deeper understanding into the underlying forces that shape accounting and corporate governance issues in the Pacific Rim.

Course requirement

You need to come prepared for each class, especially if we have a specific case or handout that we will discuss in class. The course is mainly about understanding the concepts, rather than memorizing rules and policies. It is important to participate in the lectures and engage in class discussions. I will make sure that we have a friendly atmosphere when we engage in class discussions but you need to come prepared. I will also keep track of the level of your participation throughout the course. Your participation grade depends on the quality (not quantity) of your contributions to the class.

Required Materials

All the lecture notes and handouts can be downloaded from Blackboard. I have listed a number of reference books and journal articles for your reference. I will make reference to these materials in my notes and handouts. You can spend more time on these reference books if they help you with your case projects and in understanding of the lectures. The case packet can be purchased at the bookstore.

Grading policy

We adhere to the USC Leventhal School of Accounting and Marshall School of Business grading standards for graduate programs. In general, final course grades at the graduate level in a core course average approximately B+ (3.3), but may vary based on class performance. For elective courses, the class average is usually higher--approximating 3.5, which is between a B+ and an A-. You must receive a C or better to pass a required class, and you must have an *overall* B average (3.0 minimum) in order to graduate from USC. The graded elements of this course are listed in this syllabus along with information about how they will be evaluated.

Assignments and grading detail

Your grade in this course will be based on the following activities.

Activity	Points available	Weight %	Due date
Group case project 1	150	15	Feb 1
Group case project 2	150	15	Apr 17
Peer evaluation	50	5	TBA
Class participation	100	10	-
Mid-term	200	20	Mar 6
Final	350	35	TBA

Final grades represent how you perform in the class relative to other students. Three items are considered when assigning final grades:

1. Your average weighted score as a percentage of the available points for all assignments (the points you receive divided by the number of points possible).
2. The overall average percentage score within the class.
3. Your ranking among all students in the class.

Group case projects 1 and 2 (15% + 15%)

Each group will hand in the case write-ups with 3 pages of text (font size 12, single space) and 1 page of data exhibits on the day of the case discussion (see Time Schedule for the dates for case discussion). Each group will receive case questions from me during the semester which must be addressed. In the write-up, however, structure the case report as if you are presenting it to your client in a consulting project. Don't simply answer the questions but make it a coherent report. You will be graded based on written presentation (30%), logic and justification in the arguments (70%).

Peer Evaluation (5%)

Your performance in the 2 case projects will be ranked by your team members at the end of the course (from 1 to 5, with 5 being the highest rank). The average rank you receive from other team members will determine your overall ranking, which will then be converted into a score for computing your grade.

Class Participation (10%)

I will keep track of the level of your participation throughout the course. Your participation grade depends on the quality (not quantity) of your contributions to the class.

Midterm and Final (20% + 35%)

Exams will be case-based including short answer and essay portions. More detail on exams will be given in class prior to exam week.

Assignment Submission Policy:

Assignments should be submitted via Blackboard by the start of class on the day it is due.

- Any assignment turned in late, even if by only a few minutes, will receive a grade deduction (for example, if your work is a B+ grade, you will be given a C+ grade).
- If your internet breaks down on the due date, you must deliver a hard copy to me in person at the start of class.
- Late or not, however, you must complete all required assignments to pass this course.
- No late report will be accepted after we finish discussing the case on that day.

Additional information

Retention of Graded Coursework

All graded work which affected the course grade will be retained for one year after the end of the course *if* the graded work has not been returned to the student.

Academic conduct

Students enrolled in any class offered by the Leventhal School of Accounting are expected to uphold and adhere to the standards of academic integrity established by the Leventhal School of Accounting Student Honor Code. Students are responsible for obtaining, reading, and understanding the Honor Code System handbook. Students who are found to have violated the Code will be subject to disciplinary action as described in the handbook. For more specific information, please refer to the Student Honor Code System handbook, available in class or from the receptionist in ACC 101.

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Section 11, *Behavior Violating University Standards* <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or

to the *Department of Public Safety* <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>. This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report or can initiate the report on behalf of another person. *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage <https://sarc.usc.edu/reporting-options/> describes reporting options and other resources.

Support Systems

The Office of Disability Services and Programs

http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html provides certification for students with disabilities and helps arrange the relevant accommodations.

If an officially declared emergency makes travel to campus infeasible, *USC Emergency Information* <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

Course schedule, topics and assignment

Date and day	Week	Topics and assignments
Jan 9, M	1	What is corporate governance?
Jan 11, W	1	Governance and financial reporting
Jan 16, M	2	Holiday
Jan 18, W	2	US corporate governance from the 60's to SOX Reading: Holmstrom and Kaplan (2003)
Jan 23, M	3	<u>Case study 1: Enron (US)</u>
Jan 25, W	3	Governance mechanisms – part 1 Reading: Jensen and Chew (2000)
Jan 30, M	4	Governance mechanisms – part 2
Feb 1, W	4	<u>Case study 2: Olympus (Japan)</u> Hand in the group project in the beginning of class
Feb 6, M	5	US vs. continental Europe and Japan Reading: Franks and Mayer (1997)
Feb 8, W	5	US vs. continental Europe and Japan, continued
Feb 13, M	6	<u>Case study 3: Asia Pulp and Paper (Indonesia)</u> East Asia, part 1 – Business environment, governance and accounting Reading: Rajan and Zingales (1998)
Feb 15, W	6	East Asia, part 1 - Business environment, governance and accounting, continued

		East Asia, part 2 – Family firms
Feb 20, M	7	Holiday
Feb 22, W	7	<u>Case study 4: Ayala (The Philippines)</u>
Feb 27, M	8	East Asia, part 2 - Family firms, continued
		Reading: Khanna and Palepu (1997)
Mar 1, W	8	<u>Case study 5: Samsung (Korea)</u>
Mar 6, M	9	Mid-term exam
Mar 8, W	9	Business environment and corporate governance in India and Latin America
		Reading: Rajagopalan and Zhang (2008)
Mar 13, M		Spring break
Mar 15, W		Spring break
Mar 20, M	10	<u>Case study 6: Satyam (India)</u>
Mar 23, W	10	<u>Case study 7: Petrobras (Brazil)</u>
Mar 27, M	11	Development of stock market in China
Mar 29, W	11	<u>Case study 8: Netcom (Hong Kong, China)</u>
Apr 3, M	12	Business environment – social and political background of China
Apr 5, W	12	<u>Case study 9: China or the World? (Hong Kong, China)</u>
Apr 10, M	13	Corporate governance and accounting in China
		Reading: Wong (2016), chapters 1 and 2
Apr 12, W	13	Corporate governance and accounting in China, continued
		Reading: Piotroski and Wong (2014)

Apr 17, M 14 Case study 10: China Metal (Hong Kong, China)

Hand in the group project in the beginning of class

Apr 19, W 14 Case study 11: Alibaba (US, China)

Apr 24, M 15 Case study 12: IFRS

Apr 26, W 15 Wrap up

References

Backman, Michael. *Asian eclipse: Exposing the dark side of business in Asia*. Wiley, 2001.

Barca, Fabrizio, and Marco Becht. *The control of corporate Europe*. Oxford University Press, 2001.

Coffee, John C. "The rise of dispersed ownership: The roles of law and the state in the separation of ownership and control." *Yale Law Journal* (2001): 1-82.

Claessens, Stijn, Simeon Djankov, and Larry HP Lang. *Who Controls East Asian Corporations?* Vol. 2054. World Bank Publications, 1999.

Fukuyama, Francis. *Trust: The social virtues and the creation of prosperity*. Vol. 457. New York: Free press, 1996.

Fukuyama, Francis. *The origins of political order: from prehuman times to the French Revolution*. Profile books, 2011.

Karolyi, G. Andrew. *Cracking the Emerging Markets Enigma*. Oxford University Press, 2015.

Faure, David. *China and Capitalism: A History of Business Enterprise in Modern China*. Hong Kong University Press, 2006.

Fei, Xiaotong, Gary G. Hamilton, and Zheng Wang. *From the soil, the foundations of Chinese society: a translation of Fei Xiaotong's Xiangtu Zhongguo, with an introduction and epilogue*. Univ of California Press, 1992.

Ferguson, Niall. *The great degeneration: How institutions decay and economies die*. Penguin, 2013.

Franks, Julian, and Colin Mayer. "Corporate ownership and control in the UK, Germany, and France." *Journal of Applied Corporate Finance* 9, no. 4 (1997): 30-45.*

Fusaro, Peter C., and Ross M. Miller. *What went wrong at Enron: Everyone's guide to the largest bankruptcy in US history*. John Wiley & Sons, 2002.

Holmstrom, Bengt, and Steven N. Kaplan. "The state of US corporate governance: What's right and what's wrong?." *Journal of Applied Corporate Finance* 15, no. 3 (2003): 8-20.*

Jensen, Michael C., and Don Chew. "US Corporate Governance: Lessons from the 1980's." (2000).*

Khanna, Tarun, and Krishna Palepu. "Why focused strategies may be wrong for emerging markets." *Harvard business review* 75 (1997): 41-54.*

Khanna, Tarun, and Krishna Palepu. "The right way to restructure conglomerates in emerging markets." *Harvard Business Review* 77 (1999): 125-135.

Khanna, Tarun, and Krishna Palepu. *Winning in emerging markets: A road map for strategy and execution*. Harvard Business Press, 2013.

La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny. *Law and finance*. No. w5661. National Bureau of Economic Research, 1996.

Larcker, David, and Brian Tayan. *Corporate governance matters: A closer look at organizational choices and their consequences*. 2nd edition. FT Press, 2015.

McLean, Bethany, and Peter Elkind. *The smartest guys in the room: The amazing rise and scandalous fall of Enron*. Penguin, 2013.

North, Douglass C. *Institutions, institutional change and economic performance*. Cambridge university press, 1990.

Piotroski, Joseph D., and T. J. Wong. "Institutions and information environment of Chinese listed firms." In *Capitalizing China*, pp. 201-242. University of Chicago Press, 2012.*

Rajagopalan, N. and Zhang, Y., 2008. "Corporate governance reforms in China and India: Challenges and opportunities." *Business Horizons*, 51(1), pp.55-64.*

Rajan, Raghuram. *Fault lines*. HarperCollins Publishers, 2012.

Rajan, Raghuram G., and Luigi Zingales. "Which capitalism? Lessons from the east Asian crisis." *Journal of Applied Corporate Finance* 11, no. 3 (1998): 40-48.*

Robinson, A. D., and R. Acemoglu. "Why nations fail." *The Origins of Power, Prosperity and Poverty*, Nueva York (2012).

Shleifer, Andrei, and Robert W. Vishny. *The grabbing hand: Government pathologies and their cures*. Harvard University Press, 2002.

Steinfeld, Edward S. "Forging reform in China." *Cambridge Books* (1998).

Tullock, Gordon. *The politics of bureaucracy*. Public Affairs Pr, 1965.

Wong, T.J., 2016. "Institutions, Governance and Accountability: a Review of Corporate Governance Research on Listed firms in China." *Foundations and Trend in Accounting*. Forthcoming.*

* Assigned reading

News articles and other materials

HealthSouth Corporation

<http://www.washingtonpost.com/wp-dyn/articles/A24671-2003Oct14.html>

Board of directors

Apple's board

<http://www.apple.com/pr/bios/>

<https://thewaltdisneycompany.com/about-disney/leadership/board-of-directors>

Chairman and CEO

<https://www.washingtonpost.com/news/on-leadership/wp/2015/09/18/should-ceos-also-hold-the-chairmans-role-a-vote-facing-bank-of-america-reignites-the-divide/>

Hostile takeover

<http://www.japantimes.co.jp/news/2007/05/19/business/steel-partners-bids-for-bull-dog/#.VjxMaoQRoUE>

www.nicmr.com/nicmr/english/report/repo/2007/2007aut02.pdf

<http://www.deallawyers.com/blog/2008/06/unsealed-yahoos-tin-parachute.html>

Olympus scandal

<http://www.businessinsider.com/michael-woodford-exposure-olympus-scandal-2014-3>

<http://www.theguardian.com/business/2013/oct/28/auditors-rotate-olympus-whistleblower-michael-woodford>

Family succession

<http://www.wsj.com/articles/lotte-battle-shows-perils-of-family-control-1438887611>

China's governance issues

<http://www.scmp.com/tech/enterprises/article/1852075/china-mobile-names-former-regulator-new-chairman-amid-4g-and>

<http://www.wsj.com/articles/SB10001424127887324196204578297961462046562>

<http://www.ibtimes.com/top-chinese-bank-executives-quitting-government-pay-cuts-hit-home-1873582>

China's accounting issues

<http://www.forbes.com/sites/walterpavlo/2011/04/08/fraud-in-chinese-reverse-mergers-on-american-exchanges-and-were-surprised/>

<http://money.cnn.com/2012/05/02/markets/muddy-waters-carson-block/>

<http://www.reuters.com/article/2014/01/27/us-court-sec-deloitte-idUSBREA0Q1NF20140127#1f0pjtfwS7gAllAp.97>

Other resources

HK shareholder activist David Webb: <http://webb-site.com>

Asia Corporate Governance Association: <http://www.acga-asia.org>

Index of all corporate governance codes around the world:
http://www.ecgi.org/codes/all_codes.php

IR Global Ranking:
http://www.irglobalrankings.com/irgr2010/web/default_eni.asp?idioma=1&conta=46#

OECD on corporate governance: <http://www.oecd.org/corporate/>

US shareholder activist Robert Monks: <http://www.ragm.com/index.php>

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide:
<https://www.msci.com/esg-integration>

National Association of Corporate Directors: <https://www.nacdonline.org>

KPMG Corporate Governance Center: <http://www2.deloitte.com/us/en/pages/center-for-corporate-governance/topics/center-for-corporate-governance.html>

PWC Center for Board Governance: <http://www.pwc.com/us/en/corporate-governance.html>

Center for Audit Quality:
<http://www.aicpa.org/InterestAreas/CenterForAuditQuality/Pages/CAQ.aspx>

SOX: <http://www.sec.gov/spotlight/sarbanes-oxley.htm>