

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

Spring 2018

Professor: T.J. Wong
Office: HOH 817

Office hours: M 3:30-5:30 (walk-in)
W 3:30-5:30 (reserved before appointment)

Phone: 213-740-8175
Email: tjwong@marshall.usc.edu

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 <https://cb.hbsp.harvard.edu/cbmp/pages/home>.

Grading Policies

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about a 3.5. 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. Overall average percentage score within the class.
- 3. Your ranking among all students in the class.

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	Jan 31
Group case project 2	150	15	Apr 18
Class participation	100	10	-
Mid-term	250	25	Mar 5
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%).

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 (25% + 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 12:30pm on the day it is due. The submitted assignments will be checked for originality using the “Turnitin” option in Blackboard.

- 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).
- Please also submit a hard copy to me in person at the start of class.

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.

Class Notes Policy

No recording and copyright notice. It is a violation of USC's Academic Integrity Policies to share course materials with others without permission. No student may record any lecture, class discussion or meeting with me without my prior express written permission. The word 'record' or the act of recording includes, but is not limited to, any and all means by which sound or visual images can be stored, duplicated or retransmitted whether by an electro-mechanical, analog, digital, wire, electronic or other device or any other means of signal encoding. I reserve all rights, including copyright, to my lectures, course syllabi and related materials, including summaries, PowerPoints, prior exams, answer keys, and all supplementary course materials available to the students enrolled in my class whether posted on Blackboard or otherwise. They may not be reproduced, distributed, copied, or disseminated in any media or in any form, including but not limited to all course note-sharing websites. Exceptions are made for students who have made prior arrangements with DSP and me.

Course schedule, topics and assignment

Date and day	Week	Topics and assignments
Jan 8, M	1	What is corporate governance?
Jan 10, W	1	Governance and financial reporting
Jan 15, M	2	Holiday
Jan 17, W	2	US corporate governance from the 60's to SOX Reading: Holmstrom and Kaplan (2003)
Jan 22, M	3	<u>Case study 1: Enron (US)</u>
Jan 24, W	3	Governance mechanisms – part 1 Reading: Jensen and Chew (2000)
Jan 29, M	4	Governance mechanisms – part 2
Jan 31, W	4	<u>Case study 2: Olympus (Japan)</u> Hand in the group project in the beginning of class
Feb 5, M	5	US vs. continental Europe and Japan Reading: Franks and Mayer (1997)
Feb 7, W	5	US vs. continental Europe and Japan, continued
Feb 12, 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 14, W	6	East Asia, part 1 - Business environment, governance and accounting, continued

		East Asia, part 2 – Family firms
Feb 19, M	7	Holiday
Feb 21, W	7	<u>Case study 4: Ayala (The Philippines)</u>
Feb 26, M	8	East Asia, part 2 - Family firms, continued Reading: Khanna and Palepu (1997)
Feb 28, W	8	<u>Case study 5: Samsung (S. Korea)</u>
Mar 5, M	9	Mid-term exam
Mar 7, W	9	Business environment and corporate governance in India and Latin America Reading: Rajagopalan and Zhang (2008) and Black, de Carvalho, and Sampaio (2008)
Mar 12, M		Spring break
Mar 14, W		Spring break
Mar 19, M	10	<u>Case study 6: Satyam (India)</u>
Mar 21, W	10	<u>Case study 7: Accounting for political risk at AES (US, Bulgaria)</u>
Mar 26, M	11	<u>Case study 8: Petrobras (Brazil)</u>
Mar 28, W	11	Development of stock market in China
Apr 2, M	12	<u>Case study 9: Netcom (Hong Kong, China)</u>
Apr 4, W	12	Business environment – social and political background of China
Apr 9, M	13	<u>Case study 10: China or the World? (Hong Kong, China)</u>
Apr 11, W	13	Corporate governance and accounting in China Reading: Wong (2016), chapters 1 and 2
Apr 16, M	14	Corporate governance and accounting in China, continued

		Reading: Piotroski and Wong (2014)
Apr 18, W	14	<u>Case study 11: Alibaba (US, China)</u> Hand in the group project in the beginning of class
Apr 23, M	15	<u>Case study 12: IFRS</u>
Apr 25, 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.

Black, Bernard S., Antonio Gledson De Carvalho, and Joelson Oliveira Sampaio. "The evolution of corporate governance in Brazil." *Emerging Markets Review* 20 (2014): 176-195.*

Chong, Alberto, and Florencio López-de-Silanes. "Corporate governance in Latin America." University of Amsterdam working paper, 2007.

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-bulldog/#.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>