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

Spring 2019

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Office hours: Tue 2 to 4pm (walk-in)
Thu 2 to 4pm (reserved before appointment)

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 Facebook (US), Enron (US), VW Group (Germany), 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.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Points available</th>
<th>Weight %</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group case project 1</td>
<td>150</td>
<td>15</td>
<td>Jan 29</td>
</tr>
<tr>
<td>Group case project 2</td>
<td>150</td>
<td>15</td>
<td>Apr 23</td>
</tr>
<tr>
<td>Class participation</td>
<td>100</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Mid-term</td>
<td>250</td>
<td>25</td>
<td>Feb 28</td>
</tr>
<tr>
<td>Final</td>
<td>350</td>
<td>35</td>
<td>TBA</td>
</tr>
</tbody>
</table>

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 11am on the day it is due (for both sections). 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

<table>
<thead>
<tr>
<th>Date and day</th>
<th>Week</th>
<th>Topics and assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 8, Tue</td>
<td>1</td>
<td>What is corporate governance?</td>
</tr>
<tr>
<td>Jan 10, Thu</td>
<td>1</td>
<td>Governance and financial reporting</td>
</tr>
<tr>
<td>Jan 15, Tue</td>
<td>2</td>
<td>US corporate governance from the 60’s to SOX</td>
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<tr>
<td>Jan 17, Thu</td>
<td>2</td>
<td>Case study 1: Enron (US)</td>
</tr>
<tr>
<td>Jan 22, Tue</td>
<td>3</td>
<td>Governance mechanisms – part 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reading: Jensen and Chew (2000)</td>
</tr>
<tr>
<td>Jan 24, Thu</td>
<td>3</td>
<td>Governance mechanisms – part 2</td>
</tr>
<tr>
<td>Jan 29, Tue</td>
<td>4</td>
<td><strong>Case study 2: Dieselgate (Germany)</strong></td>
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<tr>
<td></td>
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<td>Hand in the group project in the beginning of class</td>
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<tr>
<td>Jan 31, Thu</td>
<td>4</td>
<td>US vs. continental Europe and Japan</td>
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<tr>
<td></td>
<td></td>
<td>Reading: Franks and Mayer (1997)</td>
</tr>
<tr>
<td>Feb 5, Tue</td>
<td>5</td>
<td>Case study 3: Olympus (Japan)</td>
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<tr>
<td>Feb 7, Thu</td>
<td>5</td>
<td>US vs. continental Europe and Japan, cont’d</td>
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<tr>
<td>Feb 12, Tue</td>
<td>6</td>
<td><strong>Case study 4: Asia Pulp and Paper (Indonesia)</strong></td>
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<td></td>
<td></td>
<td>East Asia, part 1 – Business environment, governance and accounting</td>
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<tr>
<td></td>
<td></td>
<td>Reading: Rajan and Zingales (1998)</td>
</tr>
<tr>
<td>Feb 14, Thu</td>
<td>6</td>
<td>East Asia, part 1 - Business environment, governance and accounting, continued</td>
</tr>
<tr>
<td>Date</td>
<td>Lecture/Activity</td>
<td>Description</td>
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<tr>
<td>Feb 19, Tue</td>
<td>Lecture</td>
<td>East Asia, part 2 – Family firms</td>
</tr>
<tr>
<td>Feb 21, Thu</td>
<td>Lecture</td>
<td>East Asia, part 2 - Family firms, continued</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reading: Khanna and Palepu (1997)</td>
</tr>
<tr>
<td>Feb 26, Tue</td>
<td>Lecture</td>
<td>Case study 6: Samsung (S. Korea)</td>
</tr>
<tr>
<td>Feb 28, Thu</td>
<td>Lecture</td>
<td>Midterm Exam</td>
</tr>
<tr>
<td>Mar 5, Tue</td>
<td>Lecture</td>
<td>Business environment and corporate governance in India and Latin America</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reading: Rajagopalan and Zhang (2008) and Black, de Carvalho, and Sampaio (2008)</td>
</tr>
<tr>
<td>Mar 7, Thu</td>
<td>Lecture</td>
<td>Case study 7: Satyam (India)</td>
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<tr>
<td>Mar 12, Tue</td>
<td>Lecture</td>
<td>Spring break</td>
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<tr>
<td>Mar 14, Thu</td>
<td>Lecture</td>
<td>Spring break</td>
</tr>
<tr>
<td>Mar 19, Tue</td>
<td>Lecture</td>
<td>Case study 8: Petrobras (Brazil)</td>
</tr>
<tr>
<td>Mar 21, Thu</td>
<td>Lecture</td>
<td>Development of stock market in China</td>
</tr>
<tr>
<td>Mar 26, Tue</td>
<td>Lecture</td>
<td>Case study 9: Netcom (China)</td>
</tr>
<tr>
<td>Mar 28, Thu</td>
<td>Lecture</td>
<td>Case study 10: Baosteel (China)</td>
</tr>
<tr>
<td>Apr 2, Tue</td>
<td>Lecture</td>
<td>Business environment – social and political background of China</td>
</tr>
<tr>
<td>Apr 4, Thu</td>
<td>Lecture</td>
<td>Case study 11: Dasheng Cotton Mills (China)</td>
</tr>
<tr>
<td>Apr 9, Tue</td>
<td>Lecture</td>
<td>Corporate governance and accounting in China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reading: Wong (2016), chapters 1 and 2</td>
</tr>
<tr>
<td>Apr 11, Thu</td>
<td>Lecture</td>
<td>Case study 12: IFRS</td>
</tr>
</tbody>
</table>
Apr 16, Tue 14 Corporate governance and accounting in China, continued

Reading: Piotroski and Wong (2014)

Apr 18, Thu 14 Case study 13: Alibaba (China)

Hand in the group project in the beginning of class

Apr 23, Tue 15 Case study 14: Facebook IPO (US)

Hand in the group project in the beginning of class

Apr 25, Thu 15 Wrap up

References


* Assigned reading

**News articles and other materials**

HealthSouth Corporation


Board of directors

Apple’s board

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

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

Chairman and CEO
Hostile takeover

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


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

Olympus scandal


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


China’s accounting issues


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


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


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


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

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