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International Comparison of Corporate Governance

基礎企業ガバナンス論

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Introductory class

- Self-introduction by the instructor
- Self-introductions by the students
- General description of the course: what are we going to study, why it is important to study about CG, what are the main problems of CG
- Course requirements/ evaluation criteria
- Schedule and the first assignment (for the next class on 14 Oct.)

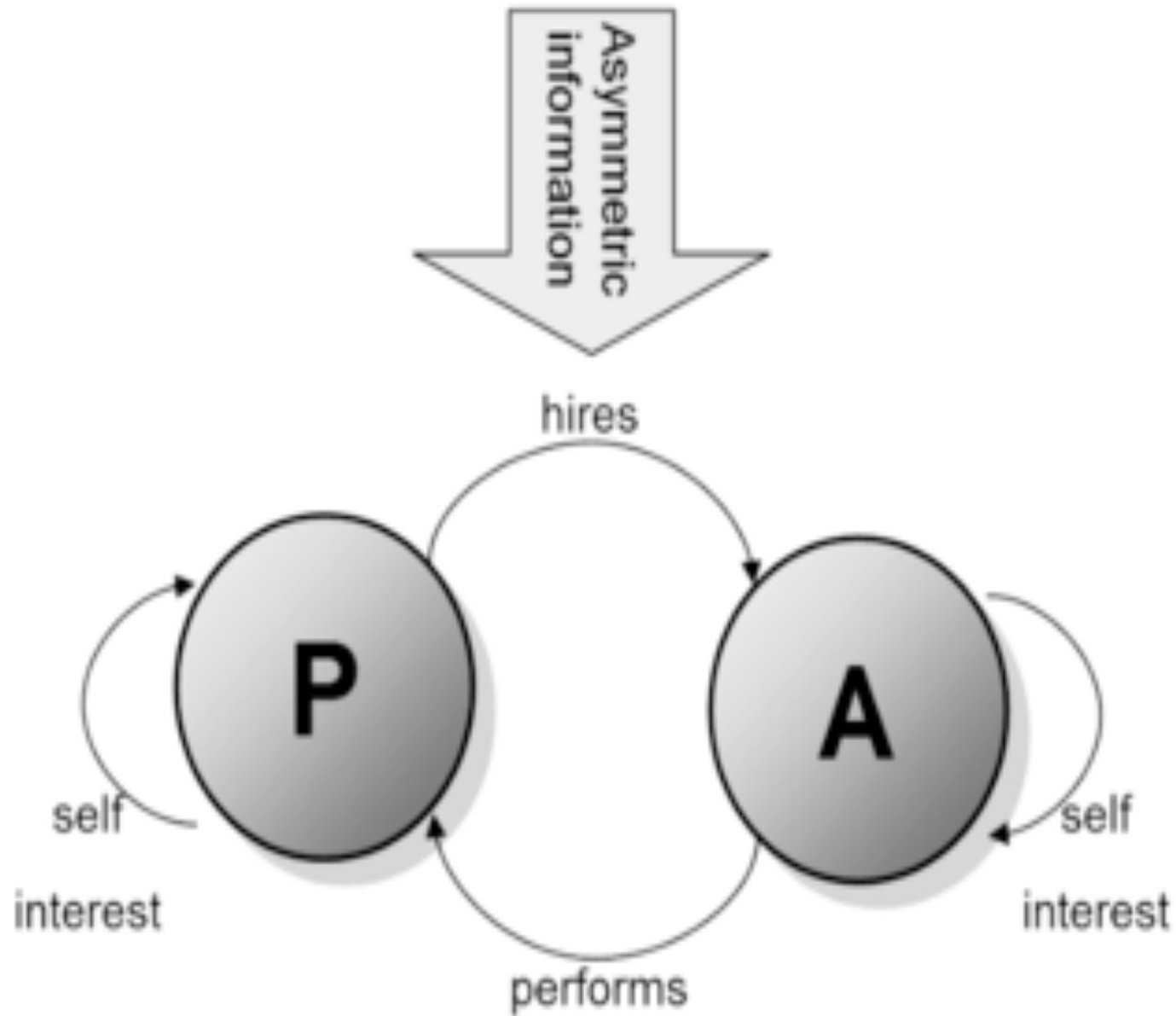
What are we going to study?

- (1) What is corporate governance (CG)? 企業統治
- (2) What is good and bad CG? Why do corporate scandals occur? 企業不祥事
- (3) Comparison of corporate governance in various countries → country case studies
- *Corporate governance in advanced economies:* US, UK, Germany, France and Japan
- *Corporate governance in emerging economies:* in Europe (Bulgaria, Russia); in East Asia (China, Vietnam)
- (4) What is corporate social responsibility (CSR)? 企業の社会的責任

What is corporate governance (CG)?

- Definition: “the ways in which *suppliers of finance to corporations* assure themselves of getting a return on their investment”
- In Japanese: 企業統治、コーポレート・ガバナンス、「会社は誰のものか」
- Main actors: shareholders, creditors and managers
株主、債権者、経営者
- The principal-agent problem: the principal (the shareholders) cannot control the actions of the agent (the managers)
エージェント問題

The principal-agent problem



What is a corporation? 株式会社

- Definition: (1) a separate legal entity (法人) whose capital is divided in shares (株式)
- (2) the “limited liability rule” (責任の限定): if the corporation fails, shareholders would lose only their investments, while managers and employees their jobs
- Abbreviations: Ltd., Inc., Plc, AG, SA, (株), ...
- Corporations have to comply with company (corporate) laws and securities laws
会社法、証券法
- Corporations can be **listed or public** (上場会社) and **non-listed or private** (上場していない)

Forms of business association (see handout)

- (Fig. 1.1) *Sole traders/proprietorships* (個人事業), *unincorporated associations, partnerships* (合名会社), *corporations* (株式会社)
- (Fig. 1.2) *Company evolution or lifecycle*: from the founding entrepreneurs to the public corporation through an initial public offering (IPO)
株式初公開
- (Fig. 1.9) *The “double agency dilemma”*: shareholders, board of directors (取締役会), and managers

History of corporations

- *The first corporation in the world: the Dutch East India Company (VOC) founded in 1606*
- In Japanese: 「オランダ東インド会社」
- Legal personality separate from its shareholders
- Over 150 trading vessels, 40 warships, 20,000 seamen, 10,000 soldiers and nearly 50,000 civilians
- Published accounts once in 10 years, paid dividends irregularly, sometimes in spices
- The VOC was dissolved in 1799 and left huge debts which were covered by the Dutch government
- *The first corporation in Japan: 渋沢栄一の「第一銀行」(1873年)*



Why should we study about CG?

- On the company level: CG can influence the long-term performance of a company
- Good CG can bring more investment into a company, i.e. more possibilities for future growth
- On the level of the society: CG can bring both benefits and damages to the society
- *Damages are usually the result of corporate scandals*
企業不祥事

Some of the recent big corporate scandals

- *The US mortgage lending companies and investment banks like Lehman Brothers (2007-2008)*
- Insider trading, accounting fraud, and false statements in Japan (2005-2008)

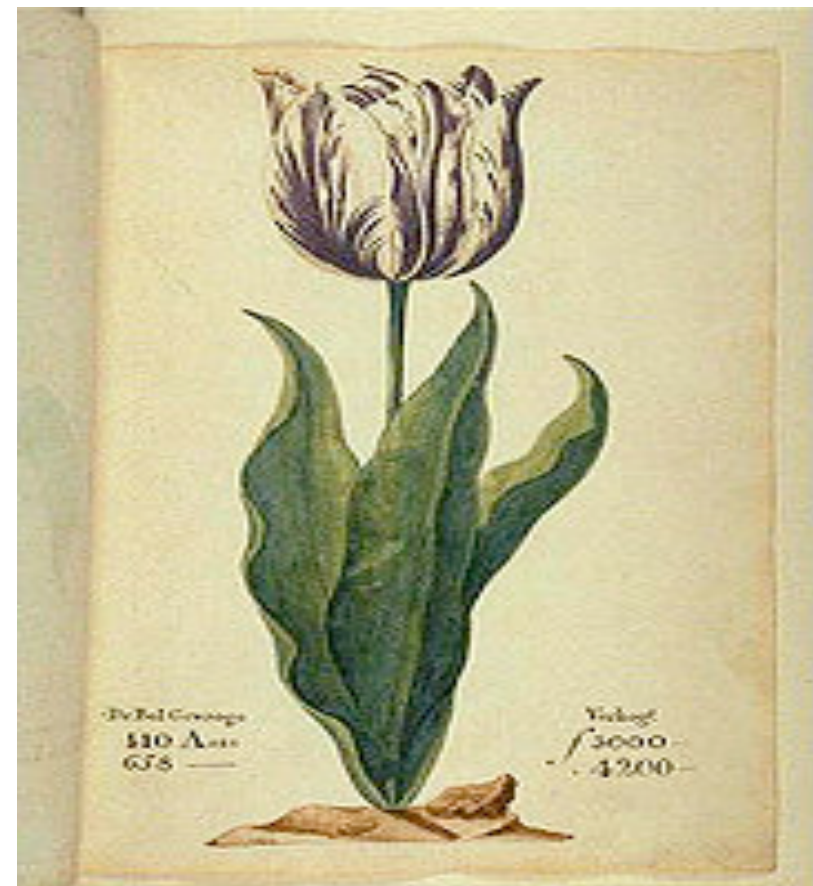
「ライブドア」、「村上ファンド」、「カネボウ」、「西武鉄道」
インサイダー取引、粉飾決算、虚偽記載、など

- *The Enron and WorldCom scandals in the US (2001-2002)*

The first scandals, or some bubble history

The bulb of this tulip cost between 2,500 - 3000 florins (about 1,300 current USD) depending on size. A skilled craftsman at the time earned about 300 florins a year

- The world's first bubbles: the Dutch tulip mania (1636-1637), the British South Sea Company (1720-1721)
- チューリップ球根バブル、南海泡沫事件



The rise and burst of the tulip bubble



The main problems of CG (1)

Problem #1: conflicts between different groups about the distribution of company resources

- Example: conflicts between shareholders and managers → usually shareholders are thought to pursue short-term financial gains
- Example: conflicts between shareholders and stakeholders 株主 vs. 利害関係者
- By “*stakeholders*” (利害関係者) we mean managers, employees, suppliers, consumers, local residents, and taxpayers

The main problems of CG (2)

Problem #2: excessive pay of top executives in the US

- The structure of top executive compensation (上級執行役員の報酬) in the US → encouraged a focus on short-term financial gains and excessive risk-taking
- Investment bankers' pay in the US
- *Massive differences in the pay among the CEOs of world's top banks*
- The CEOs of the 3 biggest Chinese banks: about \$230,000 on average per year
- The CEO of JP Morgan Chase: about \$19.6 mln. In 2008

Corporate social responsibility (CSR)

- The recent focus on CSR means that companies should serve not only the interests of its shareholders, but also those of stakeholders
- In Japanese: 企業の社会的責任
- Definition (by the World Bank): *“the commitment of business to contribute to sustainable economic development”, “working with employees, the local community and society at large to improve their quality of life”*

Course requirements/ evaluation

- The course consists of lectures, student presentations and discussions
- (1) Attendance: missing 4 classes leads automatically to failing the course
- (2) Class participation and written assignments (including “short” presentations on the written assignments)
- (3) Term paper (see handout)
- (4) “Long” presentation on the term paper

Schedule and assignment #1

- Schedule: next class on 14 Oct. and “nomikai” in October (participation is completely voluntary)
- Assignment #1 (for the next class on 14 Oct.)
 1. write a mini case study of a corporate scandal where one of the following things happened:
 - (1) the share price collapsed and the company went bankrupt;
 - (2) many employees lost their jobs;
 - (3) there was some damage on consumers or local residents;
 - (4) the government took over the debts of the failed company
 2. e-mail me the file (one page in A4 format) until 9 am on 14 Oct. and prepare a short presentation about your mini case study

Textbook and 休講 announcement

- Textbook: “Corporate Governance” by Robert Monks and Nell Minow
- No classes (休講) on:
 - 1) 28 Oct. (field study trip to Sharp’s Kameyama factory and Ise shrine)
 - 2) 11 Nov. (research trip to Vietnam)