

ACC3706 Corporate Governance and Risk Management
(Semester 1, AY2025/2026)

Course Outline

Name	Role	Email	Office
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Modular Credits: 4

Pre-requisites: ACC1002 Financial Accounting
BSP1004 Legal Environment of Business

*This module honors the lasting contributions of the most influential minds in economics and finance. We will study the seminal works of *Michael C. Jensen, Paul A. Samuelson, George A. Akerlof, Friedrich A. von Hayek, George Stigler, Oliver Hart, Oliver E. Williamson, Stewart C. Myers, Joseph E. Stiglitz, William F. Sharpe, Eugene F. Fama, and Douglas Diamond*—scholars whose ideas have profoundly shaped the way we think about markets, institutions, and human behavior.”

AIM

There are many definitions of corporate governance. One definition states that corporate governance involves “a set of relationships between a company’s management, its board, its shareholders, and other stakeholders [and that which] provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (OECD Principles of Corporate Governance, 2004). This module covers corporate governance from a multi-disciplinary perspective, including law, finance, accounting, and economics. It emphasizes the board's responsibility over the governance of risk in the corporate governance process, highlighting the need for companies to establish a robust enterprise risk management.

The module explores the crucial aspects of risk management within the scope of corporate governance. It details how an effective ERM framework helps in identifying, assessing, and responding to various risk categories such as financial, operational, information technology, and compliance risks. This discussion extends to the integration of risk management with corporate governance principles and the implementation of a

comprehensive system of internal controls to mitigate these risks effectively.

Further, the module delves into the key control principles practiced in organizations, ensuring alignment with business ethical standards and the implementation of robust business ethics programs. By understanding these elements, participants will gain insights into how risk management is interwoven with corporate governance to enhance accountability, transparency, and overall corporate integrity.

OBJECTIVES

- To enable students to grasp the theoretical model of corporate governance: How economists conceptualize the interactions between different agents in the corporate world using math.
- To enable students to understand the conceptual framework and key rules, regulations, and guidelines governing the corporate governance of companies in Asia and internationally.
- To enable students to understand the impact the global forces, such as multilateral organisations, foreign governments, multinational corporations and global investors, on corporate governance
- To equip students with knowledge of key corporate governance practices, issues and challenges that is relevant to accountants, corporate executives and other industry professionals involved in corporate governance-related work
- To equip students with the knowledge of the board's responsibility over the governance of risk in organizations, and how the enterprise risk management framework supports the board in the discharge of their responsibilities.
- To equip students with the knowledge of the key enterprise risk management principles and processes such as risk assessment, risk responses and internal control activities, and knowledge of internal control principles which are essential in providing a sound internal control environment.
- To enable students to understand equity market risk, accounting risk, regulatory risk, and government linked risk.

COURSE METHODOLOGY

An interactive approach will be employed during weeks 1 to 10. Students are expected to present their group projects on weeks 12 to 13. A final report need to be submitted by the end of week 13. Class participation is strongly encouraged and will be suitably rewarded. Lack of participation in class will be penalized.

An integrated and consolidated approach will be adopted in the classes, as students are encouraged to apply integrated knowledge instead of isolated subject knowledge in case analysis.

TEXTBOOK:

Required:

Larcker, D., and Tayan, B. *Corporate governance matters: A closer look at organizational choices and their consequences*, Pearson Education, 3rd edition, 2021.

Referenced Books:

Monks, R. and N. Minow, *Corporate Governance*, Wiley, 5th edition, 2011

ASSESSMENT:

Group project: 30%*

Class/tutorial participation/mid term exercise 20%

Final exam (open book): 50%**

*Written group project report due on Fri 11:59 pm of week 13

** Date to be confirmed

Examination: 50% (a 2-hour examination)

Case presentation (15%):

Each study group is required to analyze the corporate governance structure of the focal company of the case (see case list). The case used for the group project will be determined by the group. The analysis will be presented in class in **weeks 12 and 13**.

Report (15%)

Each study group is required to analyze the corporate governance structure of a listed local company and must be submitted by the end of week 13. The report should consist of

the following:

1. Basic background of that company
2. Corporate governance structure
3. The problem that the company is facing
4. The market response (CAPM model) to the most recent corporate governance changes (the announcement needs to be made during 202301 to 202510)
5. Strengths and weaknesses of this structure
6. Recommendations on improving this company's corporate governance
7. Answer all questions listed in the case document.

This report will be marked on the following criteria:

1. Adequacy of the institutional background (1/4)
2. Clarity in describing the corporate governance structure (1/4)
3. Applicability and efficacy of the recommendations offered (1/4)
4. Critical application of theories covered in the course to answer the questions (1/4)

IMPORTANT POINTS

1. For illness or other circumstances related to assessment, please refer to the University's Academic Regulations.

2. Students who fail to submit an assessment task (e.g., the written report for the group project) on time will receive zero marks on that task.

TENTATIVE TEACHING SCHEDULE

Week 1: Introduction to Corporate Governance: An Academic Perspective

1. Features of modern corporation
2. Agency theory and definition of corporate governance
3. Major governance mechanisms
4. The importance of corporate governance: empirical evidence
5. Case

Suggested readings:

Lacker and Tayan, chapter 1

Week 2: Executives

1. Compensation components
2. Short-term performance measures
3. Executive stock options
4. Empirical evidence: do incentive contract work?
5. Case

Suggested readings:

Lacker and Tayan, chapters 7-9

Week 3: Board of Directors

1. Board duties
2. Board features
3. Director remuneration, nomination, and election
4. Boardroom dynamics
5. Case

Suggested readings:

Lacker and Tayan, chapters 3-5

Week 4: Block shareholders and Shareholder Activism: ESG and Social Movement

1. Dispersed ownership and free-rider problem
2. Large shareholder: benefit and cost
3. Institutional investors
4. ESG movement and corporate responses.

5. Case

Suggested readings:

Lacker and Tayan, chapter 12

Week 5: Accounting and auditing

1. Information disclosure
2. Financial reporting
3. Interpreting financial and accounting information
4. External auditor
5. Cases: 2001 Enron; 2017 KPMG-PCAOB

Suggested readings:

Lacker and Tayan, chapter 10

Week 6: Market for Corporate Control and Security Regulation

1. Takeover as a corporate governance mechanism
2. Anti-takeover strategies
3. Sarbanes-Oxley Act
4. The debate on Sarbanes-Oxley Act
5. Case

Suggested readings:

Lacker and Tayan, chapter 11

Week 7: Creditors and Corporate Governance

1. Agency cost of free cash flow
2. Agency cost of debt
3. Debt overhang problem
4. The monitoring role of banks
5. Too big to fail
6. Case

Week 8: Introduction to risk: Market systematic risk

1. What is uncertainty and risk?
2. How to measure market risk
3. Using real data to estimate market risk
4. More about event studies (step by step)

Week 9: Financial risk

1. What is financial risk?
2. The cost and benefit of leverage and WACC
3. Case of Evergrande Group

Week 10: Other risks in the unsecured Era

1. Earnings management in Luckin Coffee
 - a. Using real data to identify earnings management
2. Capital inadequacy and SVB bank run
 - a. Introduction of studies on bank run
3. Government ownership and default
 - a. Introduction of studies on government bailout.
4. Gen AI versus human
 - a. Information processing
 - b. Misinformation
 - c. Digital Dystopia

Week 11: Review of corporate governance and risk management**Week 12/13: Class presentation and discussion**