

International Corporate Governance 2014 Exam
Thursday, March 13, 2014
Exam time: 4 hours

Maximum score is 70 points. Minimum required to pass the exam is 35 points. Avoid answers beyond two pages. Please write as clearly as possible.

1. (a) Give an example of a self-dealing transaction (e.g., Djankov et al, 2008). (b) Discuss differences in the regulation of self-dealing between civil law countries (such as Italy) and common law countries (such as the UK) (Djankov et al, 2008).

(20p)

2. Brickley et al (2003) view organizational design as an important facet of corporate governance. They use the term organizational architecture to refer to three key elements of organizational design.

(a) Describe the three key elements of organizational architecture.

(b) "Enron didn't just fail because improper accounting or alleged corruption at the top... The unrelenting emphasis on earnings growth and individual initiative, coupled with a shocking absence of the usual corporate checks and balances, tipped the culture from one that rewarded aggressive strategy to one that increasingly relied on unethical cornercutting. In the end, too much leeway was given to young, inexperienced managers without the necessary controls to minimize failures. This was a company that simply placed a lot of bad bets on businesses that weren't so promising to begin with." (Business Week, February 25, 2002)

Discuss flaws in the key elements of Enron's organizational architecture. (Brickley et al., 2003)

(20p)

3. Answer the following questions briefly:

(a) The controlling shareholder holds 40% of firm X and firm X holds 30% in firm Z. What is the controlling shareholder's (i) fraction of dividend rights (cash flow rights) in firm Z, and (ii) the fraction of voting rights in firm Z?

(b) What are the arguments in Guriev and Rachinsky (2005) suggesting that Russia's oligarchs might have improved the performance of Russian firms?

(c) Mention five sources of the conflict of interest between managers and shareholders.

(d) Give two theoretical explanations of why severance pay (Golden parachutes) should be included in the optimal CEO compensation contract. [Edmans and Gabaix, 2009]

(30p)

Good luck!