

Corporate Governance MGMT 625

Fall 2015

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Course description:

This seminar examines the relationships between corporate managers, the boards of directors charged with overseeing them, and investors. We'll review the responsibilities of the board, including financial statement approval, CEO performance assessment, executive compensation, and succession planning. While boards are legally bound to represent the interests of equity investors, in the course of carrying out this role they are often called on to respond to the needs of numerous other stakeholders, including customers, employees, government and society at large. With global brands at risk and mistakes instantly transmitted via Internet and social media, the reputational stakes are very high.

The course is a combination of lecture, guest lecture, discussion, and in-class research workshops. We will review some of the theory underlying modern governance practice, drawing from theories and evidence provided by research across diverse fields, including finance, sociology, and organization and management theory. We'll study specific situations where boards and management teams faced governance challenges, and assess the strategies used to deal with them. Finally, we'll examine the ways in which governance arrangements and external stakeholder involvement in governance affects corporate social behavior and global citizenship.

Course Requirements:

There are two requirements:

1. Your thoughtful participation, via the following:
 - Attendance and in-class participation (20%)
 - A journal made up of short (2-4 pg.) entries required for each class (40%).
Instructions for each journal assignment are provided in the syllabus below. Journal assignments for each class must be posted to the course Canvas website by 9:00 AM on the day that the class is held. Journal assignments are not due on days in which we have an in-class research lab, when the journal entries will be prepared as the work product for the in-class exercise.
 - Note: Students who seek extra credit points to make up for class absences or poor in-class participation can send in a real-world application, which entails finding an online newspaper or blog article about a firm that illustrates or expands upon a topic we discuss in class. Email the article to me along with a paragraph-length explanation of how the article illustrates or expands upon our class material. You may turn in more than one real-world application throughout the course for extra participation credit.

2. A final group project (40% of class grade) – an 8-10 page double-spaced paper on a governance topic of your choice, due in our final class. These papers should be submitted via email to me at marymcd@wharton.upenn.edu. The final day of class will be reserved for your groups to present your final projects to the class so that you may learn from one another and discuss each other's work. For your final project, you can critique the governance arrangements of a particular firm or country, or delve more deeply into any of the topics that we discuss over the course of the class (or any related governance topics that we do not cover, but that you have an interest in learning more about).

Reading

Assigned readings for the classes are drawn from cases, academic articles, newspaper articles, and a textbook. These are strongly related to that week's topic, and will often be summarized briefly in the lecture portion of class, or discussed as a group. I expect all participants to turn up to class having familiarized themselves with these readings and being ready to discuss them.

There is also one governance textbook assigned for the class – *Corporate Governance Matters* by Larcker and Tayan. This is intended to provide basic information and background on topics we may not have time to fully discuss in class. This reading should be considered *supplemental*, but at times may be very useful, particularly as you prepare for class sessions where you have little prior knowledge of the topic under discussion, or as you work on your final paper.

Introductory Session

Class 1, October 19, 2015 - Theoretical Roots of Governance: Who Should Govern a Company's Actions?

Readings:

- Michael Jensen, 2001, "Value Maximization, Stakeholder Theory, and the Objective Function."
- Donaldson & Preston, 1995: "The stakeholder theory of the corporation: Concepts, evidence and implications"

Textbook Reference:

- Larcker/Tayan: Chapter 1 – Introduction to Corporate Governance

Topic 1: Governance from Inside the Boardroom

Class 2 October 21, 2015 – The Role of Directors

Readings:

- Huang, “Zombie Boards: Board Tenure and Firm Performance”
- *The Economist*, “From Cuckolds to Captains: Corporate boards are playing a more prominent role in steering companies”
- Davidoff, “Despite Worries, Serving at the Top Carries Little Risk”

Textbook Reference:

- Larcker/Tayan: Chapter 3 - Board of Directors: Duties and Liability

Assignment: In an effort to increase public board’s monitoring potential, between 2002 and 2003 the three largest U.S. stock exchanges (NYSE, AMEX and the NASDAQ) all adopted requirements that listed companies have a majority of independent directors on the board. The standards used for independence among these platforms require that an independent director can have no contractual business affiliation with the company aside from their roles as director. The standards also provide that the immediate family members of a director can have no contractual business affiliation with the company in order for that director to be considered independent. What do you see as the strengths/weaknesses of these standards in promoting greater monitoring capacities among corporate boards? Provide your answer in a 2-4 page memo.

Class 3, October 26 2015 – Board Demography: Who should serve on a Company’s Board?

Readings:

- “Women on Boards,” Lord Davies, Department for Business Innovation and Skills, 2011. Click here: <http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf>
- “Are current CEOs the best board members?,” by David Larcker and Brian Tayan, Stanford GSB, August 2011. Available at: <http://www.gsb.stanford.edu/cgrp/research/documents/CGRP18-CEODirectors.pdf>

Textbook Reference:

- Larcker/Tayan: Chapter 4 – Board of Directors: Selection, Compensation and Removal

Assignment: Choose a company that interests you and pull its proxy statements from 1994/95 (or the earliest year available) and 2014/15 (or the latest year available) using the SEC Edgar archival search for form DEF 14A. Examine the company’s slate of directors as described in each proxy. How have the company’s directors changed over this period? Some characteristics to consider include, for example, board size, the number of company employees on the board, the functional backgrounds or primary occupations of board members, other board seats held by board members, the gender or racial composition of the board, the types of board committees the company has adopted, reported number of times the committees met & director attendance, reported director compensation, and who serves in the Chairman position. Given the types of changes you observe, what would you conclude about the company’s goals, strategy, or the intended role of its board?

Class 4, October 28 2015 – Board of Directors: Structure and Process

Readings:

- Leblanc and Pick, “Separation of the Chair and CEO Roles: Importance of Industry Knowledge, Leadership Skills, and Attention to Board Process”
- “Chairmanship: The Effective Chair-CEO Relationship: Insight from the Boardroom,” by Elise Walton, Millstein Center for Corporate Governance and Performance, February 2011. Available at: <http://blogs.low.harvard.edu/corpgov/2011/03/17/the-effective-chair-ceo-relationship-insights-from-the-boardroom/>

Textbook Reference:

- Larcker/Tayan: Chapter 5 – Board of Directors: Structure and Process

Assignment: In-Class Research Lab: *Measuring Board Power*

Class 5, November 2, 2015 – Board Duties: Executive Compensation

Readings:

- Lucian Bebchuk and Jesse Fried (2006) Pay without Performance: Overview of the Issues, *Academy of Management Perspectives*, 20, 5-24.
- Steven Kaplan (2008): “Are US CEOs Overpaid?” *Academy of Management Perspectives*, 22: 5-20
- “On Wall Street, Bonuses, Not Profits, Were Real.” Louise Story, New York Times, December 18th 2008

Assignment: Choose a company and, using the SEC’s Edgar Archives, examine its annual proxy materials in i) the most recent year available, and ii) the least recent year available. In a 2-4 page memo, describe the major components of the CEO’s compensation in each year. What has changed? Which changes do you think are for the better, and which for the worst? What would you recommend that the company do to improve CEO pay going forward?

Class 6, November 4, 2015 – Board Duties: Succession Planning, Risk Analysis

Readings:

- Case: *Corporate Governance at Hewlett-Packard, 1999-2005*

Textbook Reference:

- Larcker/Tayan: Chapter 7: Labor Market for Executives and CEO Succession Planning

Assignment: You have been assigned a role of a specific director at Hewlett-Packard. In a 2-4 page memo, describe if/when your assigned role behaved in ways inappropriate to their governance role.

Class 7, November 9, 2015 – The Board as a Firm Resource: Network Effects

Readings:

- Larcker, So & Wang, 2011 – Boardroom centrality and firm performance

Assignment: In-Class Research Lab: *Mapping Board Centrality*

Topic 2: Governance Outside the Boardroom: The Role of Owners and Markets

Class 8, November 11, 2015 – The Role of Markets in Ensuring Governance Quality

Readings:

- HBS Case No. 9-801-403, “Circon (A)”, Rev. December 11, 2003
- Fama, “Agency Problems and the Theory of the Firm.” 88 J. Pol. Econ. 288 (1980)

Textbook Reference:

- Larcker/Tayan: Chap. 11: The Market for Corporate Control

Assignment: In a 2-4 page memo, discuss whether you think that Circon should have accepted USSC’s offer. Why or why not? What did the board do right and/or wrong in handling the takeover attempt?

Class 9, November 16, 2015 – Shareholder Activism and the Appropriate Role of the Shareholder

Readings:

- Lorsch & McTague, Proxy Access at Whole Foods, *Harvard Business Review*
- Emerson & Latham: The SEC Proxy Proposal Rule: The Corporate Gadfly
- Christensen and Anthony, “Put Owners in Their Place: Why Pander to People Who Now Hold Shares, on Average, Less than 10 Months?”

Assignment: In the prior class, each class member will be assigned a category of shareholder (e.g., hedge fund, public pension firm, SRI fund, individual, NGO, religious organization, etc.). Your assignment is to find three examples of proxy proposals or other activist initiatives advanced by your class of shareholder. In a 2-4 page memo, discuss the three proposals. From these proposals or initiatives, what can you ascertain about the interests of this type of shareholder? How do you expect those interests to differ from other shareholders? What challenges does this shareholder face in influencing the company to pursue their interests? What strategies does (or should) this shareholder use to increase their influence?

Class 10, November 18, 2015 – Comparative Governance Session 1: Cross-National Differences in Governance Regimes

- David Larcker and Brian Tayan, 2008 “Models of corporate governance: Who’s the fairest of them all?” Stanford Business School Case CG-11
- Patrick Jenkins and Norman Cohen, 2005, Seifert’s Downfall: How a Shareholder Revolt Sent his Plans for Deutsche Borse up in Smoke. Financial Times May 25th 2005

Assignment: Pick a specific country (not the US) and write about how its corporate governance regime differs from that in the US? How does the governance regime affect the costs of doing business in this country? What improvements would you recommend?

Class 11, November 23, 2015 – Comparative Governance Session 2: Cross-National Differences in Share Ownership

Case: Citigroup’s Shareholder Tango in Brazil (A)

Readings:

- Tarun Khanna & Krishna Palepu, “The Right Way to Restructure Conglomerates in Emerging Markets” Harvard Business Review, July –August 1999, pp. 125-134
- Moon Ihlwan “Putting Investors First – Sometimes”, Business Week, January 24, 2005, p51

Assignment: In 2-4 page memo, discuss what issues business groups raise for investors. Would you invest in a member of a business group? Why might business groups have an advantage in some countries?

Topic 3: Governance and Corporate Social Responsibility

Class 12, November 25, 2015 – Shareholder Activism and Corporate Social Reform

Readings:

- Ferrell, Liang, and Renneboog, “Socially Responsible Firms”
- Flammer, “Does Corporate Social Responsibility Lead to Superior Financial Performance?”
- SEC Rule 14-a(8) – Proposals of Security Holders
- Exchange Act Release No. 40018
- Glac: The Influence of Shareholders on Corporate Social Responsibility

Assignment: Your assignment is to find three examples of proxy proposals relating to a corporate social issue (you can use proxymonitor.org to quickly find a database of recent proxy proposals). At least one example must have received less than 10% support, and at least one must have received more than 20% support. In a 2-4 page memo, discuss the three proposals. What factors do you think contributed to their success (or lack of success) when put to a vote. What might have improved the success of each? Be sure to consider characteristics of the proposal or its proponents, as well as characteristics of the targeted company, as well as external situational characteristics that may have made the proposal more or less viable. Do you think that the issues discussed in the proposal are appropriate for shareholders to be voting on?

Class 13, November 30, 2015 – Extra-Institutional Control: Social Movements, Collective Bargaining, and Corporate Social Reform

Readings:

Soule: Contention and Corporate Social Responsibility, Chap 1-2

King & Pearce: The contentiousness of markets: Politics, social movements, and institutional change in markets

Assignment: Using Factiva, find an example of a social movement targeting a company of your choice with a contentious tactic. In a 2-4 page memo, analyze the movement’s tactics and its ultimate influence. What were the demands of the movement? Did the tactic successful response from its target? What factors do you think contribute to the success (or failure) of contentious tactics? How are these factors similar to or different from those contributing to the success of the social proxy proposals we discussed last week? Which of these fronts for social activism (internal shareholder or external social movement) do you see as more viable, and why?

Class 14, December 2, 2015 – Governance and Governments: Capture and Corruption

Case: *Baker Hughes: Foreign Corrupt Practices Act*

Supplemental Readings:

Hawn, “Strategic Role of Corporate Social Responsibility in International Expansion of Emerging Market Multinationals”

Lee and Ng, “Corruption and International Valuation: Does Virtue Pay?”

Note: We will have a guest speaker for the class today. Formal questions for in-class consideration TBA.

Classes 15, December 7, 2015 –Student Presentations