

Corporate Governance MGMT 625 Winter 2017

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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, case analysis, 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:

Your thoughtful participation, via the following:

- Attendance and in-class participation (20%)
- Four short (2-4 pg.) research assignments (40%). Instructions for each research assignment are provided in the syllabus below. Research assignments must be posted to Canvas by 9:00 AM on the day that the corresponding class is held.
- 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 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).

- Students who seek extra credit points to make up for class absences or low 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.

Reading

Assigned readings for the classes are drawn from cases, academic articles, newspaper articles, and business reviews. 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.

Finally, if time permits I suggest you read the recent book *Boards That Lead*, by Charan, Carey, and Useem. It is full of practical examples of real world challenges that boards face.

Introductory Session

Class 1, January 11, 2017 - 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 January 18, 2017 – The Role of Directors

Readings:

- *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

In-class Research Lab: Finding the Fundamentals in US Corporate Governance

Class 3, January 23, 2017 – 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 1: 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, January 25, 2017 – Board of Directors: Structure and Process

Readings:

- Pick et al, “Separation of Chair and CEO Roles” available at: <http://corpgov.law.harvard.edu/2011/09/01/separation-of-chair-and-ceo-roles/>
- Huang, “Zombie Boards: Board Tenure and Firm Performance” (Skim)

Textbook Reference:

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

In-Class Research Lab: *Measuring Board Power*

Class 5, January 30, 2017 – Board Culture & Dysfunction

Readings:

- Case: *Hewlett-Packard Company: CEO Succession in 2010*
- Citrin and Ogden, “Succeeding at Succession” (link: <http://hbr.org/2010/11/succeeding-at-succession/ar/1>)

Textbook Reference:

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

Questions for In-Class Consideration: You have been assigned a role of a specific director at Hewlett-Packard. Consider if/when your assigned role behaved in ways inappropriate to their governance role. What factors contributed to the dysfunction of HP’s board?

Class 6, February 1, 2017 – Critical Duties: Succession Planning, Compensation

Readings:

- Citrin and Ogden, “Succeeding at Succession” (link: <http://hbr.org/2010/11/succeeding-at-succession/ar/1>)
- *The Economist*, “Fortune favours the boss”

Textbook Reference:

- Larcker/Tayan: Chapter 8: Executive Compensation and Incentives

Topic 2: Governance Outside the Boardroom: Owners, Markets, and Nonmarket Environments

Class 7, February 6, 2017 – 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

Questions for In-class Consideration: Do 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 8, February 8, 2017 – Shareholder Activism and the Appropriate Role of the Shareholder

Readings:

- Black
- McDonnell: Proxy Access

Textbook Reference:

- Larcker/Tayan: Chap. 12: Institutional Shareholders and Activist Investors

Assignment 2: 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 9, February 13, 2017 – Governance in the VC/Entrepreneurial Setting

Readings:

- HBS Case No. 9-809-063, “Apple’s Core”, Rev. February 4, 2011
- HBS Case No. 9-809-088, “Evan Williams: From Blogger to Odeo (A)”, Rev. February 4, 2011

Class 10, February 15, 2017 -- 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

Textbook Reference:

- Larcker/Tayan: Chap. 2: International Corporate Governance

Assignment 3: 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, February 20, 2017 – 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

Questions for In-Class Consideration: What issues do 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?

Class 12, February 22, 2017 – 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 4: 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 13, February 27, 2017 – 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.