

## Corporate Governance MGMT 242 Spring 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 (25%)
- Four short (2-4 pg.) research assignments (30%). 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. Assignments turned in after 9:00 AM **will not receive credit**.
- A final group project (35% 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 selected 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 explore any additional governance topics that we do not cover, but that you have an interest in learning more about. 25% of your course grade will come from your group's score on

- the final project and presentation. 10% of your course grade will come from your individual contribution to this final group project, as rated by your group members.
- One Real-world Application (10% of the grade) At any point in the course (prior to our final session on April 24), students should submit a real-world application, which entails finding an online newspaper or blog article that illustrates or expands upon a topic we discuss in class. Email the article to me along with a one-page 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 (e.g., in order to make up for class absences or low in-class participation).

### 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.

### ***Introductory Session***

#### **Class 1, January 11, 2017 – Introduction to the Class**

#### **Class 2 January 16, 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 3, January 18, 2018 – 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 4, January 23, 2018 – 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 5, January 25, 2018 – Director Election Process and Reform Efforts**

### Readings:

- McDonnell: Proxy Access
- Bebchuk: The Myth of the Shareholder Franchise

## **Class 6, January 30, 2018– 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

## **Class 7, February 1, 2018 – Board of Directors: Structure and Process, Cont**

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

## **Class 8, February 6, 2018– Board Culture & Dysfunction**

### Readings:

- Case: *Hewlett-Packard Company: CEO Succession in 2010*

### 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 9, February 8, 2018 – The Board as a Firm Resource: Network Effects**

### Readings:

- Larcker, So & Wang, 2011 – Boardroom centrality and firm performance
- Davis & Robbins, 2004 – Nothing but net? Networks and status in corporate governance

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

## **Class 10, February 13, 2018 -- Critical Duties: Succession Planning**

### Readings:

- Citrin and Ogden, “Succeeding at Succession” (link: <http://hbr.org/2010/11/succeeding-at-succession/ar/1>)

*Assignment 2:* Using the company that you researched in class, critique the company’s network. What are the strengths and weaknesses of the network? From a resource dependence perspective, what critical environmental uncertainties or contingencies does the company mitigate through its present network? If you were brought in as a nomination committee consultant, what kinds of connections would you counsel the board to cultivate to improve the strength of its network?

## **Class 11, February 15, 2018– Critical Duties: Compensation, Part 1**

### Readings:

- *The Economist*, “Fortune favours the boss”
- Lucian Bebchuk and Jesse Fried. 2004. *Pay Without Performance: The Unfulfilled Promise of Executive Compensation*. Cambridge, MA: Harvard University Press. Chapter 1, pp. 15-22

### Textbook Reference:

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

*Assignment:* In-Class Research Lab: *If You Were the Compensation Consultant*

## **Class 12, February 20, 2018– Critical Duties: Compensation, Part 2**

### Readings:

- Lucian Bebchuk and Jesse Freid. 2004. *Pay without Performance: The Unfulfilled Promise of Executive Compensation*. Cambridge, MA: Harvard University Press. Chapter 2, pp. 23-44; Chapters 5-6, pp. 61-86
- Peter Whoriskey. 2011. Cozy relationships and ‘peer benchmarking’ send CEOs’ pay soaring. *Washington Post*, October 3, 2011.

## **Class 13, February 22, 2018 -- Corporate Governance Ratings**

### Readings:

- Daines, Gow & Larcker, “Rating the Ratings: How good are commercial governance ratings?” *Journal of Financial Economics*, 98: 439-461 (2010).

*Assignment:* In-Class Research Lab: *Assessing Governance Quality*

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

### **Class 14, February 27– The Role of Markets in Ensuring Governance Quality Part 1: Markets for Control and Markets for Monitors**

#### *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 15, March 1–The Role of Markets in Ensuring Governance Quality Part 2: Markets for Governance**

#### *Readings:*

Mark Roe: *Delaware’s Competition*

*In-Class Case:* The Case of Expatriation: Should I Stay or Should I Go Now?

# **SPRING BREAK – MARCH 3 – MARCH 11**

## **Class 16, March 13 – In-Class Final Project Research Lab**

## **Class 17, March 15 -- 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 18, March 20 – Comparative Governance Session 3: Governance in the Nonprofit Setting**

*Readings: TBA*

## **Class 19, March 22– Comparative Governance Session 2: 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 20, March 27– Shareholder Activism and the Appropriate Role of the Shareholder**

*Readings:*

- Black

Textbook Reference:

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

## **Class 21, March 29– Big Oil Experiential Case, Day 1**

## **Class 22, April 3– Big Oil Experiential Case, Day 2**

## **Class 23, April 5– Governance and the Non-Market, Part 1: Social Movements, Collective Bargaining, and Corporate Social Reform**

*Readings:*

- 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 24, April 10– Governance and the Non-Market, Part 2: Governance Problems at the Intersection of the Social and Political Sector**

*Readings:* None.

## **Class 25, April 12 – Shaping the Non-Market: Corporate Political Activity**

*Readings:*

- Romero: Money Talks
- Oberholzer-Gee, Cantrill, & Wu: Note on Lobbying

*In-Class Research Lab:* Where do firms stand?

## **Class 26, April 17– Governance and Governments: Capture and Corruption**

*Case:* *Baker Hughes: Foreign Corrupt Practices Act*

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

## **Class 27, April 19 – Final Project Presentations and Special Topics**

## **Class 28, April 24 -- Final Project Presentations and Special Topics**