

CORPORATE GOVERNANCE

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Fall 2011

Course Objectives

This course studies the relationship between the firm and its owners. Managing owners and other external stakeholders is a core part of senior leaders' job. On the other side, the firm's owners need to be able to effectively control the behavior of management if they are to protect their investments. This course aims to train students to deal with corporate governance issues from both sides of the table. Specifically, the goals of the course are to:

- Prepare students for leadership roles in firms as CEOs, entrepreneurs or senior managers. We will learn about the core issues that leaders face in managing investors and other stakeholders, and the strategies that they can pursue to manage them.
- We will learn the tools that are available to investors to control companies, and the problems that they can face.
- Educate students in the responsibilities they may face as directors of companies, and how they can be effective in these roles.
- Give students an overview of how business activities fit into broader society, by discussing who should control the firm, and the goals they should pursue.

Throughout the course, I will introduce a variety of recent frameworks from organizational economics and incentive theory that we will use to analyze governance problems. While these frameworks are derived from academic research, we will focus on applying them to solve the practical problems of governing firms.

The course will involve a mixture of lectures, and case analysis. Each class will involve extensive discussion. The best way to understand ownership and governance issues is to gain practice in grappling with them. I believe that class discussion offers the best opportunity to do this.

Summary of course content

The course begins from the observation that in practice self-interested managers are often in a position to take actions that are not necessarily in the interests of the owners of firms. In consequence, managers may not undertake desirable long-term wealth-maximizing strategies for the organization. This course examines the governance of organizations, including the conflict of interest between managers and owners. It examines how a well-designed corporate governance system can promote wealth-creation as well as mitigate agency problems inherent in organizations.

The course provides a framework for analyzing the governance of organizations. It will cover a selection of contemporary issues in corporate governance. These include:

- Goals of the firm and corporate governance theory
- International corporate governance
- Boards of directors
- Executive labor markets
- Executive compensation and incentives
- CEO and executive equity incentives

- Corporate scandals
- Financial reporting and the external audit
- The market for corporate control
- Institutional shareholders and activist investors
- Corporate governance in Asia

The course is aimed at developing and expanding your knowledge of organization theory acquired so far throughout your career. It is designed to promote puzzle-solving skills in relation to organizational economics and corporate governance.

Description of readings and case material

The readings will take the form of case studies and articles that will be included in the course package or distributed during class. Many of the readings are required. I expect all participants to turn up to class having read these and ready to discuss them. I have also included some optional readings on the list. These readings will not be directly discussed in class. However, I strongly encourage participants to read some of these, as they will provide additional depth on some of the topics that we will study.

The Grading Scheme

The grading scheme for the course will be:

Class Participation:	30%
Individual Assignment:	30%
Team Project:	40%

Description of Assignments

Much of the learning in this class will be interactive. In order to achieve a high grade on this course, participants will need to come to class prepared and participate actively in discussions. Where the readings contain case studies, you should not only have read the case, but also have come to a point of view on the key decisions that the case describes, and thought through the governance issues that the case involves. For articles, you need to make sure that you understand the arguments, and their implications for managers.

There are two individual assignments. Due dates are in the syllabus. The first individual assignment involves your becoming familiar with the corporate governance code of the country that you come from, and summarizing its main provisions. The second individual assignment asks you to describe and reflect on a governance problem that was faced by the last organization that you worked at. These assignments are designed to explore some of the most important themes to emerge in the course, and should be carried out individually.

The Team project is an opportunity for you to get a deeper grounding in a specific area of the course. It should be carried out in groups of three or four. You will be asked to pick a topic within the first two weeks of the class, so that you can develop the project throughout the period. Each team should meet with me to discuss their topic, and how they plan to address it. Where possible, we will also discuss the projects in class as they are relevant to specific issues that we are covering. The final assignment should be 10-15 double-spaced sides, excluding exhibits, references etc.

Each team will also present their project in the last session of the term, so that the different groups can learn from one another, and discuss each others' work. Both the write-up and the presentation will contribute to the grade.

You can write the project on one of the two following topics:

Topic 1: Pick a firm that has interesting governance issues, and write about them. Imagine that you are writing a consulting report for a particular set of stakeholders (maybe the CEO, investors, or employees). Analyze the governance issues that the firm faces, paying attention to the interests of all of the different stakeholders. Describe the strengths and weaknesses of the governance system, and how it shapes participants' behaviour. Then make recommendations for your client.

Examples of topics could be a firm undergoing a takeover or takeover bid, an entrepreneurial firm seeking a new round of financing, a professional services firm that is going public, a firm that is hiring a new CEO or thinking of designing a new compensation package for its senior management team, or a company that is wrestling with issues of corporate social responsibility. Try to pick real examples. These might be a firm for which there is a lot of information in the public domain, or a company that one of the team members has worked for.

Topic 2: Pick a specific country and write about its corporate governance regime. Imagine you are writing this memo to the government suggesting ways to improve its corporate governance regime. Outline the main elements of both its formal regulations, and the standard business practices that shape corporate governance within this country. Then go on to discuss their impact on the main stakeholders within firms. How do they affect both their rights, and their behaviour? How does the governance regime affect the costs of doing business in this country? Then make some recommendations. Describe the steps that you think the government should carry out, and make a compelling argument for your recommendations.

For both of these topics, I expect the groups to do additional research, both to build a deeper understanding of the issues involved, and to understand the particulars of the firm or country that they are studying. I can help to provide some ideas for readings on this.

In grading all of the written assignments, I will be looking for both a thorough understanding of the issues, and a clear presentation of your points. I will grade on the basis of your ability to organize and summarize an argument. Writing for business is an important skill, and these assignments should be a chance to practice it.

About your instructor

Martin Conyon received a PhD in Economics from the University of Warwick. He holds the Chair in Corporate Governance at Lancaster University, UK. In addition, he is a Senior Research Fellow at the Center for Human Resources at the Wharton School and an associate Fellow at the Institute for Compensation Studies at Cornell University's ILR School. He is also works with the Conference Board in New York.

Martin's research is at the intersection of corporate governance, human resource management, and economics. He has conducted extensive research on executive compensation, the mechanisms of corporate governance and firm performance. To date, he has authored more than seventy articles, book chapters or reports.

SESSION TOPICS

Session 1: Corporate Governance

Readings Michael Jensen (2001) Value Maximization, Stakeholder Theory and the Corporate Objective Function. Journal of Applied Corporate Finance.

Steen Thomsen and Martin Conyon (2011) “What is Corporate Governance?”

1. What is Corporate Governance? Why does it matter?
2. According to Jensen, in whose interests should firms be run?

Session 2: Corporate Governance Around the World

Reading David F. Larcker, Brian Tayan, (2008) “Models of Corporate Governance: Who’s the Fairest of Them All?” Stanford Graduate School of Business, Case # CG11

Refer to the ECGI – Codes of corporate governance.

http://www.ecgi.org/codes/all_codes.php

1. What are the main differences in ownership and control around the world?
2. Will corporate governance practices converge?

Session 3: Building the Board of Directors

Reading Steen Thomsen and Martin Conyon (2011) “Board theories and board structure”

Case Jay Lorsch and Alison Watson (1993) “Praxair: Creating a Board (A)” Harvard Business School Case # 9-493-038

The Economist (2011) “Women in the boardroom: the wrong way to promote women.” (21 July, 2011)

David Larcker (2008) “Director Networks: Good for the director, good for shareholders” Stanford Graduate School of Business, CGRP-08

1. What factors are most important in creating an effective board of directors? Make recommendations on the design of the board at Praxair as if you were providing advice to shareholders.
2. How does board structure affect the value of the firm? How does board diversity affect business performance?
3. How and why are board networks important? Do board interconnections create firm value, or do they simply reflect the “old boy network”?

Individual Assignment 1 Due

1. Familiarize yourself with the corporate governance arrangements and regulations in your own country, or a country you are very familiar with.
2. Briefly summarize in less than two pages:
 - A) The ownership structure of firms
 - B) The rights of shareholders
 - C) The structure of the board
 - D) The rights and duties of the board

Session 4: Executive Labor Markets

- Reading Ken Favaro, Per-Ola Karlsson and Gary L. Neilson (2011) “CEO Succession 2010: The Four Types of CEOs” Booz & Company, Strategy and Business, <http://www.strategy-business.com/article/11207>
- Cases Jay Lorsch (2005) “Michael Ovitz and the Walt Disney Company”, Harvard Business School, Case # 9-406-065
- The Economist (2011) Apple – “Steve Jobs resigns: The minister of magic steps down” (August 2011)
1. Describe the CEO succession process. How can it be improved?
 2. What went wrong / right in the case of Michael Ovitz at Disney?
 3. Evaluate Steve Jobs tenure at Apple? How would you assess Apple’s succession process?

Session 5: Executive Compensation

- Readings David Larcker and Brian Tayan (2011) “Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences” published Pearson Prentice Hall, Chapter 8: “Executive Compensation and Incentives”
- Case V.G. Narayana and Lisa Brem “CEO Compensation at GE: A Decade with Jeff Immelt” Harvard Business School Case # 9-112-003.
1. Should the MDCC modify or rescind the stock option award, or should they stand by their decision and ignore the ISS recommendation?
 2. Describe the main features of the typical CEO compensation plan.

Session 6: Executive Compensation: CEO Ownership and Incentives

- Readings Kaplan, Steven N. (2008) Are U.S. CEOs Overpaid? Academy of Management Perspectives, 22, 2, 5-20.
- Bebchuk, Lucian A. and Jesse M. Fried. (2006) Pay without Performance: Overview of the issues. Academy of Management Perspectives, 20, 1, 5-24
- Case David Larcker (2011) “Seven Myths of Executive Compensation” – Stanford Graduate School, Closer Look Series, CGRP-17
1. Are CEOs overpaid? What is the evidence for and against?
 2. Is CEO compensation effectively linked to firm performance?
 3. How would you improve current compensation plan design?

Session 7: The Market for Corporate Control

- Readings Jeffrey Pfeffer (2007) “Curbing the Urge to Merge”, Harvard Business School, 2608BC
- Case Brian Hall (2003) “Circon (A)”, Revised, Harvard Business School Case # 9-904-023
1. What is the rationale for corporate takeovers? Who wins and who loses?

2. Should Circon accept or reject the tender offer? Give your reasons.
3. What are the responsibilities of the board?

**Individual
Assignment 2
Due**

Describe a corporate governance problem faced by the last organization that you worked with. What was the cause of the problem? How would you advise the board to resolve it? You need not have personal experience of this problem. However, it should be an opportunity for you to think about some of the themes raised in this course applied to your specific organization. The write-up should be 3-5 pages (no more), and should draw on the readings, cases and discussions from class.

Session 8: Corporate Scandals

Readings Fuller, Joseph and Jensen, Michael C., Just Say No to Wall Street: Putting a Stop to the Earnings Game (February 17, 2002). Journal of Applied Corporate Finance, 14(4) <http://ssrn.com/abstract=297156>

Case Paul Healy and Krishna G. Palepu (2005) "The Fall of Enron", Journal of Economic Perspectives, 17(2): 3-26.

1. What went wrong at Enron?
2. Evaluate the role of financial reporting and the external audit function.
3. Critically evaluate the leadership and corporate culture at Enron.
4. How, in your view, can future Enron's be prevented?

Session 9: Institutional and Activist Investors

Readings Robin Greenwood and Michael Schor (2008) "When (Not) to Listen to Activist Investors" Harvard Business Review, F0801H

Semler Brossy (2011) "Shareholder Voting and Responses to Proxy Advisors: 2011 Say on Pay Results"

Case David Larcker and Brian Tayan (2010) Sharks in the Water: Battling an Activist Investor for Corporate Control (A) Stanford Rock Center for Corporate Governance, CG-20A

1. Based on Exhibit 4, what demands will Barracuda make of the company? Do you expect them to go public with these?
2. Consider the possible actions in Exhibit 8. Which of these would you recommend to the board? What actions might Tarco make?

Session 10: Germany

Case Ulrich Harmuth, 2007, "Corporate Governance at Daimler Chrysler"

1. What are the main differences between German and US corporate governance?
2. Do you think the new company should be based in Germany or the US?

Session 11: Corporate Governance in Asia

Readings Asia Corporate Governance Association (2010) “Rules and Recommendations on the Number of Independent Directors in Asia.”
<http://www.acga-asia.org/>

Case Regina Abrami, William Kirby, Warrant McFarlen and Ning Xiangdong, and Trace Yuen Manty (2008) “China Netcom: Corporate Governance in China (A)” Harvard Business School, 9-308-027 (revised)

1. What are the key aspects of the firm’s corporate governance?
2. In what ways are the different from those of a publicly-traded US firm?
3. Why do those differences exist?
4. How effective do you think China Netcom’s governance processes are? How do you recommend they evolve in the future?

Session 12: Course Review and Presentations

Readings TBA, if required