

MGT 336 - Corporate governance (2 Credits)

**MBA Program
Claremont Graduate University
Peter F. Drucker and Masatoshi Ito Graduate School of Management
Fall Semester, Mod. 2, 2008
Monday 4-6:50 PM**

Faculty:

Cornelis A. ("Kees") de Kluyver, Masatoshi Ito Professor of Management
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Office hours by appointment

Course summary:

How can we explain the turmoil that confronts shareholder capitalism today? What happened at Enron, Global Crossing, Tyco and numerous other corporations in the last few years? Are these "isolated" incidences or is there a broader pattern of ethical lapses we need to be concerned with? What are the underlying issues?

To answer such questions, this 2-credit course looks at the fast changing field of corporate governance. It is designed to survey the system, the process, the participants, the legal/regulatory environment, and the most important developments in the field over the last few years.

The course begins by looking at corporate governance from a **macro/systems point of view** and poses such questions as: What functions does the corporate governance system perform? What does the term "fiduciary responsibility" mean? Are shareholders really "owners" or mainly "investors"? What is the role of the board? How does it reconcile differences between stakeholder interests? What are the legal requirements for directors? The board as a whole? What is Sarbanes Oxley all about? What is the role of the SEC? The Exchanges? Other oversight bodies in regulating corporate behavior? Does the system work? What can we learn from other systems (U.K., Germany, Japan)

Toward the middle of the course we turn our attention to **the role of the board and board performance**. As part of this discussion, we look at how boards make decisions, how board operations are structured, and the sociology of the board room setting. In this part of the course, we will also look at specific decisions a board is expected to make incl. appointing, advising and evaluating the performance of the CEO; acting on major strategy proposals, creating processes and systems to ensure compliance with applicable laws and ethical guidelines, and creating a process for evaluating its own performance.

Course objectives:

1. Develop an understanding of the managerial, political, economic and legal dimensions of corporate governance.
2. Develop an understanding of the current issues and developments in the corporate governance debate, including the changing role of investors, the CEO, and the board
3. Develop an understanding of what makes a board effective.

Course policies:

1. Attendance at ALL classes and solid preparation are expected and will be taken into account in the grading process
2. The final grade is based on class participation (40%), a board research paper (30%), and a final take-home case write-up (30%)
3. This course is open only to **second year** MBA students

Book

Colin B. Carter and Jay Lorsch, **Back to the Drawing Board** – Designing Corporate Boards for a Complex World, Harvard Business School Press, 2004

Cases

Accounting Fraud at Worldcom (HBS 9-104-071)

Board of Directors at Medtronic, Inc. (HBS 9-407-045)

James Burke: A Career in American Business (A) (HBS 9-389-177)

James Burke: A career in American Business (B) (HBS 9-390-030) (**NOT TO BE INCLUDED IN CASE PACKET – FOR HANDOUT IN CLASS ONLY**)

Philips Electronics NV (HBS 9-407-047)

Useful Websites

1. <http://www.thecorporatelibrary.com>
2. [Sarbanes-Oxley Act of 2002](#) (PDF, 130 pages, 680Kb)
3. <http://www.lw.com/practice/corporategovernance/>
4. <http://www.issproxy.com/index.jsp>
5. <http://www.boardsource.org/>
6. NASDAQ - [Regulatory Requirements](#) (PDF, 23 pages)

7. The Business Roundtable (BRT) - [Principles of Corporate Governance](#) (PDF, 37 pages)
8. National Association of Corporate Directors (NACD) - [Recommendations for Reform post-Enron](#)

Board Research Exercise and Final Exam (Take-Home Case)

Board Research Exercise: (due at the beginning of the sixth class)

You will be asked to select a publicly listed (Fortune 500) corporation or major nonprofit organization of your choice and critically assess its corporate governance practices and issues over the last five years. To do this, you will have to gather company documents, public documents and articles, and reviews from major Institutional Investors and other sources. You **may** be asked to make a brief presentation in the second session. **The research paper should be less than fifteen double-spaced typewritten pages in length**

Final Take-Home Case: (due on the first day of final examination week)

Course Schedule

Session 1- Corporate Governance – A Macro Perspective (Lecture)

Read: Carter/Lorsch, *Chapter 1-3*

Read: Principles of Corporate Governance – Business Roundtable (Sakai)

Read: Bebchuk: VA Law Review (Sakai)

Session 2 - Scandals and Regulatory responses

Case: *Accounting Fraud at Worldcom (HBS 9-104-071)*

1. What pressures led executives to “cook the books”?
2. Where is the boundary between “earnings smoothing (management) and fraud?”
3. Why did it take so long for these actions to be detected?
4. How do you assess the role of the auditors and the board?
5. Betty Vinson: victim or villain?

Read: Carter/Lorsch Chapter 4-6

Read: Corporate Governance White Paper (Sakai)

Read: McKinsey Board Survey 2007 (Sakai)

Session 3 – What Boards Really Do – The Big Decisions (1)

- CEO Selection and Succession Planning
- Oversight, Compliance and Risk Management

Read: HS-CEO Succession (Sakai)
Read: DB-CEO Succession Planning (Sakai)
Read: The Audit Committee (Sakai)

Session 4 – What Boards Really Do – The Big Decisions (2)

- The Board's Role in Strategy Development
- CEO Performance Evaluation and Executive Compensation

Read: CEO Evaluation – Mercer (Sakai)
Read: Executive Compensation Challenges 2008 (Sakai)

Session 5 – What Boards Really Do – The Big Decisions (3)

- Board Development

Case: *Board of Directors at Medtronic, Inc.* (HBS 9-407-045)

Read: Carter/Lorsch, Chapters 7-9
Read: Board Alignment (Sakai)
Read: Khurana and Pick – The Social Nature of Boards (Sakai)

Session 6 – What Boards Really Do – The Big Decisions (4)

- Crisis Management

Case: *James Burke: A Career in American Business (A)* (HBS 9-389-177)
(*James Burke: A career in American Business (B)* (HBS 9-390-030) **will be handed out in class**)

Read: Q&A About ERM (Sakai)
Read: Rotman – The Coming Corporate Revolt (Sakai)

Session 7 – Special Topics

- Globalization
- The Coming New Compact between Business and Society

Case: *Philips Electronics NV* (HBS 9-407-047)

Read: CEO Social Issues (Sakai)
Read: Monks on Reforms (Sakai)
Read: Private Equity (Sakai)

About the Instructor

Cornelis A. “Kees” de Kluyver is the Masatoshi Ito Professor of Management and former Dean at the Peter F. Drucker and Masatoshi Ito Graduate School of Management at Claremont Graduate University.

His professional experience includes over thirty years in academe and management consulting. Prior to coming to Claremont Graduate University, he was Dean and Professor of Management at the School of Management at George Mason University, in Fairfax, Virginia. Earlier in his career, he was a partner with Cresap Management Consultants, a Towers Perrin Company, in the firm’s strategy and organizational effectiveness practice. In this position, he served a wide range of clients in the high technology and service industries on a range of strategy issues including the globalization of multinational operations.

His academic career includes several other academic appointments; as Professor of Business Administration as the Colgate Darden Graduate School of Management at the University of Virginia; as Associate Professor of Management at the Krannert Graduate School of Management at Purdue University; and as Senior Lecturer in Operations Research at the University of Canterbury, Christchurch, New Zealand.

Dr. de Kluyver’s areas of research include global strategy and corporate governance. He has published extensively in the areas of Operations Research, Marketing, and Strategic Management and his writings can be found in such journals as Management Science, the Journal of Marketing Research, the European Journal of Operational Research, the Sloan Management Review, and Long Range Planning. His third book - STRATEGY: A VIEW FROM THE TOP (with John A. Pearce II, published by Prentice Hall) - is in its second edition and was translated in Spanish, Portuguese, Japanese, Korean, and Chinese.

Dr. de Kluyver was a member of the first Blue Ribbon Commission on Executive Compensation convened by NASD, which focused on developing standards for stock option grants, and a senior advisor to Institutional Investor, Inc., which deals with governance issues in the Asset Management Industry.

Dr. de Kluyver has served on a number of corporate and philanthropic boards. He has held visiting appointments at Oxford University (U.K.) and the University of Stellenbosch (S.A.). He is a frequent speaker to professional audiences, and holds a Ph.D. in Operations Research from Case Western Reserve, an MBA for the University of Oregon and undergraduate degrees from the University of Oregon and from Nijenrode, the Netherlands School of Business.