



MOR 545 (1.5 units.)

CORPORATE GOVERNANCE AND BOARD LEADERSHIP

Fall 2016, Session 415 (October 17 – December 14)

Wednesday: 6:30-9:30

Section 16693 Room ACC236

Professor: Judith Blumenthal

Office: HOH 424 Hoffman Hall

Office Phone: 213-740-0734

MOR Phone: 213-740-0728

E-mail: judith.blumenthal@marshall.usc.edu

Office Hours: By appointment

INTRODUCTION AND COURSE OBJECTIVES

Boards of directors are receiving unprecedented attention, as effective boards are increasingly viewed as crucial to the delivery of shareholder value. Yet most MBA students know surprisingly little about how boards are comprised and what they do.

The board of directors is positioned at the apex of the corporate governance system, the system by which business corporations are directed and controlled. Boards serve a vital leadership role. The board is directly responsible for the most critical decisions that affect the corporation, including hiring (and firing) the CEO, strategy, ethics, compensation programs, and risk appetite. Board action sets the direction and tone for what occurs within the larger corporate governance system (which includes rights and responsibilities of multiple stakeholders [board of directors, managers, shareholders, and others]). It is the board that is ultimately responsible for the corporation's strategy and performance.

This course will focus on the roles and responsibilities of the Board of Directors and the key issues that boards face today.

Upon completing the course, students will be able to:

- Understand the foundations of corporate governance, and the role and perspective of the Board of Directors,
- Understand and identify problems associated with the interactions of the board, the CEO, and management, as well as shareholders, and other stakeholders of a corporation,
- Evaluate and analyze the governance of a company from the perspective of an investor, potential investor, or other stakeholder in the company,
- Prepare presentations for boards of directors,
- Serve as members of suitable boards (Several recent USC MBA students have already had director opportunities in private or not-for-profit organizations), and
- Apply analytical and critical thinking skills to complex board situations.

REQUIRED COURSE MATERIALS

Syllabus: Read this syllabus very carefully and refer to it throughout the term.

Required HBS Coursepack: Cases and selected readings are available on the Harvard Business School Publishing website. The unique link for this course is:

<http://cb.hbsp.harvard.edu/cbmp/access/56062749>

If you already have an online account at HPSP, you will login and this link will take you to our Coursepack, which will appear in your library. If you do not have an account, you will register and create an account with this link, and then will be able to login and see this Coursepack in your newly created library. Once you see this Coursepack, there is a button to PURCHASE MATERIALS. If you have technical difficulty, you may call Harvard Business Publishing technical support (800) 545-7685. They are available 24/7.

Ares: USC Electronic Library Reserves: Additional readings are available on the university electronic course reserves (ARES).

Blackboard (BB):

I use BB as my primary method of communicating with you. E-mails sent to the class originate from the Blackboard system, and will also be archived as Announcements on Blackboard. In addition to direct communications, you will also find other important materials posted to BB, including any syllabus updates, information about class sessions, including preparation requirements, additional required and supplemental reading, as well as news posts. You should check BB *daily* for any new information posted relevant to upcoming sessions.

It is your responsibility to insure that your e-mail address and account settings in Blackboard are correct for you to receive messages. Please insure that your BB account settings forward your messages to your preferred internet provider (IP) account such as your correct USC e-mail address, AOL, G-Mail, Hotmail, etc.

You can access BB by going through the "My Marshall" portal <http://mymarshall.usc.edu>. You will need your UNIX password.

Wall Street Journal: The daily Wall Street Journal is *highly recommended* for this class.

- To order the Wall Street Journal at the student discount price, use the following link: WSJ.com/studentoffer
- After you type in your payment and delivery information, you will need to provide School information. USC's zip code is: 90089. On the scroll bar, USC is listed as: U STHRN CAL LS ANG
- You will then scroll and select "referring professor."
- Subscription, print and online, will start very quickly.

Business Press:

In addition, you are expected to peruse the business press, seeking articles pertaining to the topics covered in the course, and particularly the topic you have chosen for your team report. This reading will enable you to contribute examples and applications.

Additional Materials:

Additional materials may be assigned during the semester, which may be posted electronically or require purchase.

RESTRICTION: Online registration is open only to graduate business and accounting majors.

GRADING SUMMARY

The components of the final course grade will be weighted as follows:

Participation	15%
Quizzes	40%
Group Governance Paper	45%
Total	100%

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about A-/B+ (3.5).

Class Participation And The Classroom Environment

Case courses work well, and are enjoyable effective learning experiences, if everyone is an active productive participant. To encourage you to participate actively in class, I will call on people on both a random (involuntary) and a rotating voluntary basis, and class participation will provide a material portion of your grade. I do this for several reasons. First, it improves grading accuracy. I can learn a great deal from hearing you share your ideas over a series of classes. I keep track of participation.

But perhaps more importantly, grading class participation motivates class participation, and having highly interactive class sessions helps the learning process. Active class participation encourages students to be well prepared and thus to become active, rather than passive, learners. Participation provides students with the opportunity to gain from the experiences and talents of everyone in the class. And class participation helps students improve their oral communication skills. This is important because research shows that people in business tend to spend very little time reading and even less time writing reports. A great deal of managers' and other professionals' interactions with others are through oral communication.

Class participation evaluations will be based primarily on the quality of the contributions to our classroom discussions. To help you understand what I am looking for regarding class participation, I have listed below some questions I will try to answer in evaluating class participation:

- (1) Does the class member make points that are especially pertinent to the discussion? Do they increase the understanding of the class or are they simply a regurgitation of the problem or case facts?
- (2) Is there continuity in one's contribution from what has been said previously during class, or are the comments disjointed, isolated, or tangential? The best class contributions are those that reflect not only excellent preparation, but also good listening, interpretive and integrative skills.
- (3) Do the comments reflect a willingness to put forth new, challenging ideas or are they always agreeable and "safe"?
- (4) Is the participant able and willing to interact with others by asking questions, providing supportive comments or challenging **constructively** what has been said?

I will evaluate participation on an ordinal scale, the end points of which can be described as follows:

Outstanding Contributor: This person's contributions reflect exceptional preparation, and the ideas offered are always substantive and provide major insights and direction for the class. If this person were not a member of the class, the quality of the discussions would be diminished significantly.

Unsatisfactory Contributor: This person may be absent from class or someone who rarely participates in class discussion. Alternatively, this person's contribution in class reflects inadequate preparation and/or understanding. Ideas offered are not substantive and provide few, if any, insights and rarely or never a constructive direction for the class. Integrative comments and effective arguments are absent. Class comments are either obvious, isolated from the main discussion, or confusing to the class.

While attendance per se is not graded, you cannot contribute to your participation grade without being in class. There are no excused absences. You are accountable for your active participation in each class session. Habitual lateness and/or leaving class early, for whatever reason, will be noted as evidence of low course commitment and penalized. I expect professionalism in this respect. Please notify me by email of any unavoidable absences in advance. Also, if an emergency has prevented you from thorough preparation in a particular class, please let me know in advance to spare us both the embarrassment of my calling on you.

Finally, a few words about classroom etiquette: An atmosphere of *mutual respect* is in order. So please...

- arrive at class on time: late arrivals are disruptive to your fellow classmates and to the conduct of the class;

- turn off your cell phones before you enter the classroom;
- do not engage in side conversations during class;
- do not pack up and leave towards the end of the class until it is clear the class is over.

Quizzes

Several short quizzes will be given at the beginning of class. No make-up quizzes will be given.

Group Paper: Governance Issue

A final group paper and brief presentation will be due the last day of class. Your group will write a paper based on a governance issue related to a class topic. Allowable group sizes will depend on the total class size. I will announce group size range in class.

Teams should be finalized (and emailed to me) no later than the end of the second week of class, and topics must be submitted for approval at the same time. Every group must clear its topic with me and receive approval. NOTE: Your topic will need to be related to a topic covered by the class. Select a topic that interests you!

You can use a current governance situation in the news for your paper. Alternatively, you could select a governance topic that you wish to explore in greater depth. Another possibility is to examine some current trend(s) in governance or a recent change in policy that may impact corporate governance, and see what impact it is likely to have going forward. I will be interested the relevance and clarify your coverage, and particularly in the depth of your analysis. I expect you to apply frameworks we have studied in class.

Papers will be turned in on the last day of class, and also provided to me electronically within 24 hours. You will give the class a short summary of your paper, using just a few Power Point slides. (Slides will also be emailed to me within 24 hours.) NOTE: Papers are due at the beginning of the last class. Points will be deducted if this deadline is missed.

Maximum length will be 3000 words, plus a one –page executive summary. (You must provide a word count on the last page of text in your paper.) You may also include up to five appendices. Appendices must support and be referenced in the body of your report. Use headings, sub-headings, etc. to help the reader follow your discussion and analysis. Bibliographic references must be provided, using APA form.

Papers must be typed on plain white 8 ½ x 11” paper in 11 or 12-point font with one-inch margins around the page. All text material (not tables or references) must be double-spaced. Papers must include a cover page with assignment title, course title and number, section number, and, each team member’s name with e-mail address. All pages, including appendices and references, must be numbered. Papers should be fastened with a staple in the upper left corner—no folders please. No creative formatting!

Additional information will be provided in class.

ADDITIONAL MARSHALL POLICIES

Technology policy

Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated by me. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during academic or professional sessions. ANY e-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, i-Pads, and i-Pods) must be completely turned off during class time. Upon request, you must comply and put your device on the table in off mode and FACE DOWN. You might also be asked to deposit your devices in a designated area in the classroom. Videotaping faculty lectures is not permitted due to copyright infringement regulations. Audiotaping may be permitted if approved by me. Use of any recorded or distributed material is reserved exclusively for the USC students registered in this class.

No Recording and Copyright Notice

It is a violation of USC's Academic Integrity Policies to share course materials with others without permission. No student may record any lecture, class discussion or meeting with me without my prior express written permission. The word "record" or the act of recording includes, but is not limited to, any and all means by which sound or visual images can be stored, duplicated or retransmitted whether by an electro-mechanical, analog, digital, wire, electronic or other device or any other means of signal encoding. I reserve all rights, including copyright, to my lectures, course syllabi and related materials, including summaries, PowerPoints, prior exams, answer keys, and all supplementary course materials available to the students enrolled in my class whether posted on Bb or otherwise. They may not be reproduced, distributed, copied, or disseminated in any media or in any form, including but not limited to all course note-sharing websites. Exceptions are made for students who have made prior arrangements with DSP and me.

Students with disabilities

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m. – 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

Academic conduct

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Section 11, *Behavior Violating University Standards* <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or to the *Department of Public Safety* <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>. This is important for the safety whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage <https://sarc.usc.edu/reporting-options/> describes reporting options and other resources.

Support Systems

Students whose primary language is not English should check with the *American Language Institute* <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students.

Emergency preparedness/Course continuity

In case of emergency, and travel to campus is difficult, USC executive leadership will announce an electronic way for instructors to teach students in their residence halls or homes using a combination of Blackboard, teleconferencing, and other technologies. For additional information about maintaining your classes in an emergency please access: <http://cst.usc.edu/services/emergencyprep.html>

Please make sure you can access this course in Blackboard and retrieve the course syllabus and other course materials electronically. You should check Blackboard regularly for announcements and new materials. This preparation will be crucial in an emergency. USC's Blackboard learning management system and support information is available at blackboard.usc.edu.

ABOUT YOUR PROFESSOR

Judith Blumenthal has published, taught, and consulted in the areas of: strategic management; corporate governance; organizational design, development and leadership; strategic alliances; and the management of retail and services firms. She has also served as a senior corporate executive and a university administrator. Dr. Blumenthal was Associate Dean of the Marshall School of Business (January 1996 through March 2000) and USC's Chief Alumni Officer and Executive Director of the USC Alumni Association (April 2000 through June 2006).

She currently serves on the Board of Directors of the California Council on Economic Education, where she has been Chair of the Board Affairs Committee and a member of the Executive Committee. She is also a member of the USC Radio (KUSC) Advisory Board. She was a member of the Board of Directors of Guess? Inc. (2007 to 2013) where she served as Chair of the Nominating and Governance Committee and a member the Audit and Compensation Committee. She previously served as a member the Community Advisors for the Natural History Museum of Los Angeles County, a member of USC Alumni Association Board of Governors, and a member of the Board of Directors of the Council for Advancement and Support of Education (CASE), District VII. She is a member of Women Corporate Directors.

Judith Blumenthal received her bachelor's degree in English from Hunter College of the University of New York, and her M.B.A. and Ph.D. degrees in Business.

COURSE SCHEDULE

CI	Topics <i>Class Activities</i>	Assigned Readings CP=Coursepack; ARES=library electronic reserves	Assigned Cases (in CP)
1 10/19	Course Introduction The Corporation and Corporate Governance The Governance Problem and Board Leadership <i>Lecture/Discussion</i> CCL Industries <i>Case Analysis</i>	CP: M&A Legal Context: Basic Framework for Corporate Governance ARES: Berkshire Hathaway Annual Report (excerpt) ARES: The director's dilemma: What's my job?	CP: CCL Industries
2 10/26	CEO selection, evaluation, succession, compensation. <i>Lecture/Discussion</i> Al Dunlap At Sunbeam <i>Case Analysis</i>	ARES: Boards that Deliver, CEO Compensation ARES: Pearl Meyer Partners, 2016 Compensation Committee Agenda	CP: Al Dunlap at Sunbeam
3 11/2	The Market for Corporate Control <i>Lecture/Discussion</i> Circon <i>Case Analysis</i>	CP: How to outsmart activist investors ARES: Starboard Value's Jeff Smith ARES: Board Members: Are you thinking like an activist investor? (optional) ARES: Secrets of the Activist Manager (optional)	CP: Circon
4 11/9	Oversight, compliance and risk management A Price Worth Paying? Guest Sp: David Kistenbroker, Dechert LLP <i>Lecture/Discussion</i> <i>Case Analysis: Baker-Hughes</i>	CP :Building better boards CP Leading from the boardroom. ARES: Primer on Corporate Governance: Oversight, Compliance, and Risk	CP: Baker Hughes: Foreign Corrupt Practices Act
5 11/16	Board Appraisals Not-for-Profit Boards <i>Lecture/Discussion</i> Governance in Times of Crisis <i>Case Analysis</i>	CP: Appraising Boardroom Performance ARES: <u>Handbook of Nonprofit Governance</u> , by Board Source, ch. 1 and skim Part I	CP: Governance in Times of Crisis
6 11/30	Course wrap-up Jonathon Elderslie and the Board Decision <i>Case Analysis</i> Student Papers Due Peer Evaluations Due	TBA	CP: Jonathon Elderslie and the Board Decision

APPENDIX A
CASE ASSIGNMENT QUESTIONS

CCL Industries

1. Analyse the development of the CCL board.
2. Identify problems that could have arisen under the various board structures.
3. If you were consulting to CCL management, what recommendations would you make to improve the effectiveness of the CCL board?

Al Dunlap at Sunbeam

1. Do you agree with Dunlap's view of shareholder primacy (see page 3)?
2. What are the strengths and weaknesses of Dunlap's compensation package? What type(s) of behavior did it motivate?
3. Was the second compensation package well-structured?
4. Did the board make the right decision in firing Dunlap? Is this an example of effective or poor corporate governance?

Baker Hughes: Foreign Corrupt Practices Act

1. What actions were taken by Baker Hughes in response to the company's being accused of violating the Foreign Corrupt Practices Act (FCPA)?
2. Were the changes adequate and appropriate to address the current situation and prevent future violations? Explain.
3. Would you describe the situation at Baker Hughes as a corporate governance issue? Explain.

Governance in Times of Crisis*Part A*

1. Evaluate the recruitment and nomination procedures used by the Centre Bienvenu board.
2. How do Sebastien's theories on organizational development affect his performance?
3. Who should have primary responsibility for funder relations?
4. Evaluate communication strategies used.

Part B

1. Does Paulette need to "go"?
2. Evaluate the events leading up to Paulette's situation. Could it have been prevented?

Part C

1. What is the root cause of the difference in approach between Sebastien and the rest of the board?
2. What should the board do about it?
3. What were the warning signs that the Centre had management control issues? Evaluate the board's response.
4. What kinds of controls should be implemented now?

Circon

1. What motivated Circon chairman and CEO Richard Auhll?
2. Did he have financial incentives that strongly aligned his interests with those of the shareholders?
3. At the board meeting at the end of the case, what options are available to the board?
4. Which is most attractive?

Jonathon Elderslie and the Board Decision

1. What attitudes toward corporate governance are revealed in the comments made to Jonathon Elderslie by his friend, Jerome Haskins, as well as in Elderslie's own experience as an executive reporting to a board?
2. Do you think these attitudes are widespread or confined to few directors?
3. To the extent that these attitudes exist, what needs to change to create more effective corporate governance?
4. What questions should Elderslie be asking before deciding to take on a directorship?

APPENDIX B

GUIDE TO CASE ANALYSIS

PURPOSE

Case analysis helps students to develop the kinds of skills that are essential to success in business organizations: identification and analysis of complex business problems, application of judgment in developing solutions, interactive problem-solving, and persuasive presentation of conclusions.

THE NATURE OF BUSINESS CASES

Business cases are detailed descriptions of real company situations in which management is confronted with important issues or problems. Students are required to (1) identify problems or key issues that management needs to address, (2) assemble relevant data, (3) perform appropriate analysis and evaluation, and (4) propose an action plan and a set of recommendations that address the issues identified. Cases contain a rich variety of data, including company background and performance, environmental forces, and points of view of key decision makers. Not unlike real world situations, cases will not contain all the data you would like. Your challenge is to do the best job you can with the information available.

HOW TO APPROACH A CASE

A. GETTING THE LAY OF THE LAND

1. Read the case quickly to get a sense of layout and form preliminary hypotheses about major issues. Initial impressions can be revised, but this groundwork will provide structure and direction for a more in-depth reading.
2. Read assignment questions and think about where in the case you might discover answers. Assignment questions are provided to help guide your analysis.
3. Reread the case carefully, annotating, highlighting, and distinguishing important information, omissions, and questions.
 - a. Take notes that sort information, facts, and observations under a number of relevant headings.
 - b. Try to formulate theories or hypotheses about what is going on as you read ("the company's exposure to xyz risk as increased as it has..."), modifying or rejecting them as new information surfaces.

B. IDENTIFICATION OF PROBLEMS/ISSUES AND ANALYSIS QUESTIONS

1. Now decide what the action issues really are. These are the one or two *key* issues and problems that your in-depth analysis will address. Remember, every issue in the case will not rise to the level of a key issue. The true underlying problems/key issues will become further clarified as you gain greater insight through analyses and additional review of the case.
2. Decide exactly what you have to analyze in order to solve the key issues you have identified. Asking focused analysis questions will provide direction on where and how to spend your time. Remember, ask questions whose answers will inform what action needs to be taken.

C. PERFORM ANALYSES

1. Perform quantitative and qualitative analyses to answer the questions you have identified. You will apply *appropriate* concepts and models in this section. This is not a "dump" of all models you know, but rather an opportunity to apply particular concepts, models, and analytical tools that will enable you to gain insight and advance your analysis. Your objective is to get beyond the level of problem symptoms to analyze underlying issues and causes.

You will support your analysis with case data and any well-informed assumptions you make about necessary but missing information. Be sure to distinguish between factual data from the case, opinions of actors in the case, and assumptions you make. **Use only information that was available at the time the case ends.**

2. Integrate the findings of your analysis. Formulate an analytical synthesis which clarifies the critical issues.

D. ACTION PLANNING

1. Alternatives

Identify and evaluate alternative courses of action. Alternatives must address the issues you have identified and follow logically from your analysis. You will explicitly consider and reject various alternatives, based on criteria you identify as most important. Some alternatives may not be effective in addressing the issues you identified, others may cause more problems than they solve or cost more than they are worth, others may not be feasible or acceptable to management (solutions should be compatible with the values and preferences of management and those who will implement them). In formulating alternatives, avoid cop-outs such as: "Hire a new president who can solve the problem," or "Hire a management consultant to solve the problem."

2. Recommendations

Based on your evaluation of alternatives, decide on a course of action. You will develop a plan by which the desired action may be achieved or implemented within the constraints encountered in the situation.

E. PREPARE NOTES FOR CLASS DISCUSSION

APPENDIX C **GUIDE TO ARTICLE ANALYSIS**

The following set of questions is provided to guide your analysis of the readings assigned this semester. Please use this guide to structure your article analyses.

1. What is the purpose or objective of this article? (To challenge or debunk a well-accepted view; to contribute to a body of theoretical work; to explain a puzzling exception; to update theory in response to current phenomena; etc.)
2. What is the article's basic argument/thesis? Its major findings/ conclusions?
3. What is the nature of evidence presented in support of the argument/ thesis? (Impressionistic, theoretical, empirical, etc.) Are the conclusions well supported?
4. Are there important assumptions, assertions, values, or biases that the author expects us to accept without support? Are these explicit or implicit?
5. How does this article contribute to your overall understanding of the subject? How does it relate to other articles you have read and to your own knowledge and experience?
6. How useful is the article for practicing managers?
7. Does the article leave you with any remaining problems or concerns?

APPENDIX D
PEER EVALUATION

This form must be completed and submitted to me on the last day of class. Aggregate results may cause me to adjust individual grades for team projects up or down. Please consider overall contribution of team members to all team assignments, taking into account the following:

Preparation: Rate the extent to which the member contributed to development of the assignment and the research.

Input: Rate the extent to which the member provided valuable input of ideas towards the team's work.

Diligence: Rate the extent to which the member took on the necessary roles to complete the team's work, his or her timeliness in completing and distributing work, and the quality of the work performed.

Facilitation: Rate the extent to which the member helped the team maintain a positive climate and work together effectively.

Learning: Rate the extent to which the member contributed to your own learning through the team's work together.

Please follow directions carefully!

Allocate 100 points across all the members of your team *apart from yourself* to reflect your assessment of their individual contributions to the team effort. I will treat your assessments as confidential.

Your name: _____

Course name: _____ Date form completed _____

Course number: _____ Section number: _____

Group #: _____ Group Project: _____

Team-member name:	Contribution %:	Comments
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____
4. _____	_____	_____
5. _____	_____	_____
Total:	100%	

General Comments (Use additional page if necessary):
