Corporate Governance
B65.2176.010
Fall 2009
Tuesdays 6:00PM – 9:00PM
Location: 3-80

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Corporate governance is the collection of policies, customs, and laws that define the relationship between the owners and managers of a firm. Good governance can be a powerful source of advantage for the company and its constituent stakeholders. Dysfunctional governance can destroy the careers of accomplished executives, or bring down even the longest-standing firms. Failure of governance has even been blamed, in part, for the financial crisis. Blow-ups at Enron, Lehman, and AIG have cost investors, creditors, and possibly taxpayers, hundreds of billions of dollars. More recent controversies regarding risk management and executive compensation suggest that public corporations still have a way to go before restoring the confidence of investors and the public.

The subject of corporate governance sits at the intersection of law and finance. It raises questions such as: What is the role of the board? What are the trade-offs faced by directors that make boards’ jobs so challenging? What are the key mechanisms for maintaining accountability in complex organizations? How should management be rewarded? How does good governance look for nonprofit, private, or international firms versus publicly traded firms in the U.S.? We will take a virtual journey into the boardrooms of recognized corporations and organizations that have faced governance challenges. We will explore the effects of recent regulatory changes, and the many proposals for governance reform currently being debated.

Students will be challenged to master key concepts, structures, and dynamics of corporate governance by learning from both successful and, probably more importantly, flawed examples. By the end of the course, they will know what a good corporate governance system should look like, have a greater appreciation of the interactions between our multi-layered legal system, dynamic markets, institutional activists, and a vibrant media.
Teaching Method

Lectures, cases, and guest discussions are the main teaching methods used in this course. Our guests provide distinct perspectives on corporate governance in the public, private, non-profit, and international contexts. You will benefit from meeting with them and having ample opportunity to ask questions.

Class Preparation

Preparation, attendance, and contributions to class and working groups are the primary obligation of students in this course. Each student is expected to prepare for class discussions through a reading and analysis of all the assigned materials. The instructors may occasionally revise the readings and/or the class structure to reflect current events or to include updated material. You should therefore monitor Blackboard on a regular basis. Instructors will present concepts or examples (often from their personal experience interacting with or participating on boards). However, the professors in this class firmly believe that students don’t learn by being silent. They will be encouraged, and at some points expected, to participate in the discussions of points raised by the presentations, either by the professors, guest speakers, or other students. Students will be called upon, as well, to respond to points made in class.

Our textbook will be *The Board Book*, by William Bowen (W. W. Norton, 2008) available for purchase at the NYU bookstore or on any of several Internet bookstores. We have already checked Barnes And Noble and Amazon for you.

Finally, it would be extremely helpful to the instructors if students kept their nameplate in front of them at all times. We will meet only six times. Since class participation is a significant part of the grade, having your name visible helps us all to quickly figure out who you are.

Grading

Each student’s grade will be determined as follows:

- **Class participation: 20%**: This class is intended to be topical as well as pedagogical. As mentioned above, students benefit from identifying and participating in discussions about the corporate governance issues, which are continuously arising. And you can’t participate if you’re not in class

- **Paper and panel presentation 30%**: We will make available or assign certain governance topics to the class. We will expect a brief paper from each student on their topic, then gather the students onto panels for class discussion on their topic. Details of this assignment will be provided in the first class.

- **Final exam 50%**: The final take-home exam will cover the textbook, readings, cases, discussions, and guest lectures. We are not interested in minutiae; the exam’s focus will be on the main ideas emanating from the class. We will discuss the exam further as the semester progresses.

**Note**: Since corporate governance issues generally arise during the course of any semester, your instructors reserve the right to alter the content of any lecture to reflect current events. In anticipation of that probability, please monitor Blackboard so that you might be aware of potential new readings.
### Session #1  September 29, 2009

**Topics**
- The many facets of corporate governance
- Why does good governance matter?
- A peek behind the board’s veil

**Guest**
- Eileen Cohen, Managing Director, JP Morgan Chase: *The investors’ view*

**Readings**
- Bowen: Chapter 1, “Roles of Boards,” p. 19-44
- Conference Board Commission: Part 2 – Corporate Governance (Bb)
- Chibber: “How Green is Richard Branson?” *Wired*, August 2009 (Bb)
- Boeing’s 2009 Proxy (handed out in class)

**Case:**
- Boeing proxy statement of 2007

### Session #2  October 6, 2009

**Topics**
- Financial disclosure
- The audit committee
- Earnings management, fraud

**Guest**
- Jon Weber, Head of Portfolio Company Operations, Goldman Sachs – Special Situations Group: *Governance at private companies*

**Readings**
- Loomis: Lies, Damned Lies and Earnings Management (Bb)
- Byrne: "Chainsaw Al" (excerpts) (Bb)
- Bowen: Chapter 7, “Board Machinery,” p. 149-172

**Case:**
- The Earnings Game: Interactive case (distributed in class)

### Session #3  October 13, 2009

**Topics**
- Board oversight
- Board composition and leadership
- Governance for non-profits

**Guest**
- Holly Gregory, Partner, Weil, Gotshall, Manges: *Boards and shareholders*

**Readings**
- Bowen: Chapter 2, “Board Leadership,” p. 45-68
- Gregory et. al: ABA Task Force on Corporate Governance (Bb)
- “Splitting Up the Roles of CEO and Chairman: Reform or Red Herring?” From Knowledge at Wharton (Bb)

**Case:**
- Getty Museum
### Session #4  October 20, 2009

**Topics**
- Executive compensation
- Shareholder activism

**Guest**
- Pearl Meyer, Partner, Steven Hall & Associates: *Paying the CEO*

**Readings**
- Bowen: Chapter 3, “Compensating the CEO,” p. 69-90
- Lublin, Thurm, “Money Rules” (Bb)
- Hodak, “CEOs Aren’t Overpaid” (Bb)
- Dvorak, “More Holders Want Say on Executive Pay” (Bb)
- Zimmerman: “Home Depot Bows to Whitworth Again” (Bb)

**Cases:**
- The Magic Kingdom: A Tale of Three Characters
- Relational Investors takes on Home Depot

### Session #5  October 27, 2009

**Topics**
- Managing the CEO; succession planning; transitions
- Risk management
- Governance scandals: Enron, Nardelli

**Guest**
- Morris Offit –Co-Chairman and Co-CEO Offit Capital Management Inc., Director AIG Corp.: *Governance and risk*

**Readings**
- Bowen: Chapter 4, “Evaluating and Replacing the CEO,” p. 91-104
- Bowen: Chapter 5, “CEO Transitions,” p. 105-124
- “Boeing CEO Resigns Over Affair With Subordinate” (Bb)
- Biggs: Management of Risk, Technology and Costs in a Multi-line Asset Management Business

**Cases:**
- Risk Management on Wall Street
- The Enron Scandal
- Scandal at Boeing

### Session #6  November 4, 2009

**Topics**
- Governance reform: SOX, ratings, evolving expectations
- Summary of the course

**Guest**
- Kenneth Langone: Investor, director, philanthropist

**Readings**
- Minnow: Letter to the SEC (Bb)
- Donlan, “Criminalization of Corporate Conduct” (Bb)

**Cases:**
- Student panels