

For Bidding Purpose Only

Fundamentals of Governance—Syllabus

B8575, Block Week

Bruce Kogut

Sanford C. Bernstein Professor, Director

Uris 706

Email: Bruce.Kogut@columbia.edu

Office Hours: before/after class:

Class Meets:

Teaching Assistant

Course Description

Organizations and firms, and how well they are governed, drive the wealth and happiness of a society. The standard view of corporate governance is to posit that governance seeks to make organizations more efficient. This has been the case for the shareholder model of governance. Yet there is more than just efficiency. Governance is also always about power as much as it is sometimes about efficiency and effective leadership. We will study different forms of governance structures to understand how they function and how well they express power and achieve, sometimes, efficient outcomes. To this, we also join the question is the exercise of power fair and just.

A typical presumption has been that governance by the public corporation represents a standard with which to understand the potential of good governance. But the public corporation is besieged—stock exchanges show net de-listings, raiders are challenging venerable corporations, regulatory requirements impose heavy costs on IPOs. Is it true that the public firm, and in particular the American form of it, joins both a just distribution of power and an efficient form of governance?

These questions are lodged in a larger, often political, debate. Are public, or private firms, delivering an economic performance that rewards the many stakeholders: shareholders, employees, society? For whom do corporations serve? What is their performance? Are they betraying national interests by outsourcing or by employing immigrants or by locating overseas, sometimes by inversions for primarily tax benefits?

As this course is short and quick, we focus on the United States and compare across the types of governance, e.g. the public firm, the private firm, the ESOP, the sports league, and the non-profit. The primary institutions discussed will be the board, the shareholders, institutional investors, the stakeholders, and management. However, there will also be plenty of moments to think about the dynamics and personalities of families, CEOs, and directors.

There are a variety of perspectives from which questions of corporate governance can be formulated and addressed but it has been economic analysis that has largely dominated

For Bidding Purpose Only

contemporary discussions of the subject. Most theories of governance are preoccupied with the relationship between institutions of governance and economic performance. We expand this perspective to ask ultimately, are there forms of governance that are competitors to the public corporation? Would they satisfy stakeholders, and the wider public, more than the shareholder governance that is so much under assault today?

It may help you also to understand what the course is not about. Because we are looking comparatively, we will not attempt to ‘go deep’, instead we ‘go wide.’ This means, we will not look deeply at the issues of *corporate* governance, the relevance of law and regulation, and the functioning of governance at particular junctures, such as bankruptcy, acquisition, or in a proxy contest. These issues are handled more in depth in other specialized classes.

Your instructor: Bruce Kogut

Taught in many places around the world, lived many years in Europe (primarily France but also Sweden and Germany), was chaired full professor at Wharton, INSEAD, before coming to CBS in 2007. I direct the Sanford C. Bernstein & Co. Center on Leadership and Ethics and am the faculty point person on ethics and the IBS curriculum. I have served on corporate and non-profit boards primarily outside the US, including 3i Infotech India, the advisory board to chief economist at the EBRD, academic boards to IFMR (Chennai) and Skema (France) and Skolkovo (Russia), an NGO in India, and the International School of Paris. I also founded Insead’s Social Enterprise Program. I work on CEO pay, impact investing and social capital markets, data analytics and performance of firms and micro-finance organizations, among other things. You can also find a clip of me on the John Stewart Show (John Oliver), trying to explain what ethics is about for MBAs. The Bernstein Center has also produced a film on [financial innovation](#), starring Bruce Greenwald, Robert Solow, Blythe Masters, Peter Stringham, David Abrams, Barney Frank, Edward Conard, Alicia Glen, Wilson Ervin, and others. Have a look.

What is expected of you?

I expect that you read the cases before the class starts and the required readings (*) too. The class will fail if you do not read the material, so don’t free ride. We need your participation.

All written assignments should be submitted using the dropbox on Canvas and a printed copy delivered to class the day of the assignment.

Before the start of this class, you are required to go on to this page [ISS Quick Governance Score](#) and to find the score of a company of your choice. Be prepared to explain if you agree with the score.

For the second day notice there is a mock simulation of the decision to fire or not Carly Fiorina. You will be assigned groups (and these will be sent by email) and you will need to access the case from Canvas the week before. During lunch, your group can discuss the case, assign roles, and decide what you want to do. (Or you can do this before the class begins.) It is a disaster if you don’t come prepared, with case read, and the background chapters too.

For Bidding Purpose Only

The second day, you are asked to answer three questions: how should a start-up be governed? how do you think Soccer and the NBA should be governed and why? And third, is governance by ESOPs viable? Efficient? Two pages total for the three questions. The work should be done in a group of 4 or less.

Please read the BlocPower case. I strongly encourage you to have a look at the governance constitutions/by-laws for the sports leagues before class. And go on-line at www.esopinfo.com to see their material on ESOPs.

And for those that are brave, do you think there should be quotas mandating minimal percentage of women on boards?

The third day, you should prepare answers to these questions, again 2 pages max (can be less): why not sell and privatize the New York Public Library and have it privately managed? Do you think prison services should be contracted out and governed privately?

Final Exam

The final exam is a take-home essay answering a specified question that is related to the course materials. A hard copy must be delivered to Dropbox (Canvas) before 12:00 pm (midnight) January 28, 12 midnight. Late submissions will not be accepted.

Course Grade

Class attendance and assignments are mandatory.

Course Outline

Session 1:

Topic: Overview of Governance

Assignment: See Assignments at the End

Reading:

- Bob Tricker, *Corporate Governance: Principles, Policies, and Practices*, Ch. 1 & 2 (this is a big print easy read that you will like)

Additional reading:

- Peter Cornelius (now senior economist at Alpinvest/Carlyle) & Bruce Kogut, Governance -first pages may be of interest. Introduction chapter to a book for the World Economic Forum, 2003.

For Bidding Purpose Only

Session #2:

Topic: Strategy and Governance

Case Reading:

- Corporate Governance at Hewlett-Packard 1999-2005, Columbia CaseWorks, ID #100601

Group assignment: A write up answering the questions at the end of the case is due at the beginning of the session.

Questions:

1. How far should the board extend governance into the decisions of management?
2. Were there violations of good governance?
3. As a board member, did you have enough information to make a decision regarding the merger with Dell? What you have liked to know more?
4. What's your vote?

Session #3:

Topic: Group Behavior and Board Decision-Making

Group assignment: Hewlett-Packard Role Plays, Reenactment of HP board meeting at which question of whether to retain the CEO is made. Each person is assigned one of the key participants in the HP case: six HP board members and Walter Hewlett. Two teams of seven people will play these roles during the class.

- Attention: You will have to prep especially for this class, so READ the material.
 - The HP case.
 - Read the private information about your character that will be emailed/given to you on May 16th at 12 noon.
 - If you were your character going into the January 2005 board meeting, what would be your objective in that meeting?
 - You will be assigned to a group after the HP morning discussion and the group will meet over lunch on May 16.
1. If you were a member of that board, what would you do?
 2. What actions should the board have taken to arrive at the best decision?
 3. Was Fiorina at a disadvantage because she was a female CEO?

Session #4:

Lessons from the HP Simulations.

For Bidding Purpose Only

Guest Speaker:

- [Ellen Kaden](#) former General Counsel, Campbell Soup.

Session #5:

Topic: Why not take it private?

Guest Speaker:

- Alan Jones, Managing Director and Head of Global Private Equity, Morgan Stanley

Reading:

- Morgan Stanley Dean Witter. The Aftermath of the Merger (read pages 9-22)
1. What changes when a partnership becomes a public corporation?
 2. Why not reverse the decision and take the firm private?
 3. Why would anyone work for a public firm if they could work for a private firm in the same industry?
 4. Bonus question: are activist investors in the interest of shareholders and long-term value of the firm?

Bio: Alan Jones is Chairman of Morgan Stanley's Global Private Equity Investment Committee and also serves as a member of the Investment Committees for Morgan Stanley Private Equity Asia, Morgan Stanley Expansion Capital, Morgan Stanley Infrastructure Partners, and Morgan Stanley Credit Partners, and as a member of the Merchant Banking Department Executive Committee and Risk Committee. He currently serves as a Director of HBF, CoAdvantage, Access Cash, and ReachOut Healthcare America. He has previously served as a Director of McKechnie Aerospace, EmployBridge, Creative Circle and Zenith (UK).

Session #6:

Topic: Prisons: Why not take them Private?

Reading:

- [Columbia Trustees Action on Divestment from Prisons](#)
- [Case for Private Prisons -Comment, Politico](#)

For background: [Divesting Prisons](#)

Questions:

1. Why should prisons be privatized?
2. Why not?
3. Is state-ownership the best way to own and govern prisons?

For Bidding Purpose Only

4. Does your argument hold for every country?

Session #7

Topic: The Non-Profit University, the Library, Donors, and

Guest Speaker: [Anthony Marx](#), President/CEO, New York Public Library, TBC.

Video: [Interview with Tony Marx](#) (5 min to 22 min; 37 to 40:20 min)

Questions:

1. Why should a library be a public sector service?
2. Why should a university be a private non-profit?
3. What would it matter to governance and efficiency if it was either?
4. What is the model of Good Governance for the NYPL?

Session #8:

Topic: Governing the Purpose-Driven Firm

Guest Speaker:

- [Donnel Baird](#), CEO, [BlocPower](#)
- Video: see [Tedx](#), Jay Coen Gilbert, co-founder of B Corp, minutes 10 to 19.

Case Reading:

- BlocPower. Energizing Urban Neighborhoods
- Bob Tricker, *Corporate Governance: Principles, Policies, and Practices*, Ch 9

Preparation: Please review the material on the above web sites.

Questions:

1. Who are the owners and stakeholders of BlocPower?
2. Should debt have a voice?
3. What should be the governance structure of BlocPower for the point of view of investors?
4. Is this in the long-term interest of BlocPower?
5. Does the B-Corp form lead to a better governance structure?

For Bidding Purpose Only

Session #9:

Topic: Politics and Corporations from Citizens United to the CEOs who Quit Trump's Business Council After Charlottesville?

Citizens United: Should Firms Contribute to Political Elections?

[Briefing on the Decision](#)

[Current Status of Spending](#)

Post Charlottesville:

[Los Angeles Times on CEOs Quitting](#)

[Ken Frazier, Merck](#)

[Jamie Dimon, JP Morgan Chase.](#)

[Doug McMillon, Walmart](#)

Session #10:

Topic: Employees as Owners Through ESOPs

Guest Speakers:

- [Jason Rosenthal](#) , American Working Capital

Required Reading:

- Bob Tricker, *Corporate Governance: Principles, Policies, and Practices*, Ch 11.

Recommended reading (the web site is very useful.)

- [Richard b. Freeman, Joseph R. Blasi, Douglas L. Kuse, Introduction to “Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options”](#)
- www.esopinfo.org

Questions:

1. Shouldn't employees already be participants in the governance of the public firm?
2. What is the argument for making employees into shareholders?
3. What do you see as the hazards?

For Bidding Purpose Only

4. Why not put union representatives on the board as in Germany, or as in GM and US Steel?

Session #11:

Topic: Governing of Professional Sports Leagues: Soccer

Guest Speakers:

[Sunil Gulati](#), Professor of Economics, Columbia; President, United States Soccer Federation

Reading: [US Soccer Association Governance](#) & [Governance: How Fifa Works .](#)

Questions:

1. What are the challenges of governance for professional sports?
2. For whom should the sports league be governed?
3. Why are there ethical challenges in sports and can good governance help?
4. Should the USSA offer women soccer pays equal pay to the men? What is the argument against this position?

Session #12:

Governance is power.

In-class evaluations.