

## **Management 274 Syllabus**

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Office hours: MW 1 – 2 pm

### **Purpose of the course.**

In my view, running organizations well requires two things: good strategy and good governance. The rest is a matter of details—useful and important, but details.

Corporate governance is an exciting and timely topic. This course covers recent and not-so-recent business and accounting scandals, discusses how corporations can better operate in the interests of shareholders and the public, and learn from people who rely on corporate governance in making investment decisions. This course should be valuable to current and prospective shareholders and directors and to managers who wish to operate their organizations with effective governance. It is directly relevant to people who are or want to be involved in governance—auditors, consultants in compensation and incentives, staff working on mergers and acquisitions, corporate regulators, and shareholder rights activists. We focus on shareholders as the primary constituent of the organization, but our work is also relevant for a broader group of stakeholders.

This course aims to help students understand the workings of corporate governance. We focus on the governance of corporations for which there is a separation of ownership from control of resources. In these cases, owners-shareholders have entrusted corporate managers with resources to conduct business and generate a return on investment for them. Owners-shareholders rarely monitor corporate managers closely, which allows managers considerable discretion in using resources. For example, researchers have long documented the inclination of managers to achieve growth at the expense of profitability and to manage accounting numbers to present a more stable picture of companies' financial performance than actually occurs. The result is that corporate managers have tremendous resources at their disposal and wield influence that arguably is greater than that of governments.

Corporate governance is a broad and important topic that matters to managers, directors, accountants and auditors, shareholders, regulators and society as a whole. Serious students of corporate governance must know the law, economics, finance, accounting and auditing, sociology, psychology and political science. This course takes one look at corporate governance; you could take many courses on this topic and still have only scratched the surface.

Note: I am grateful to Bill Kinney, University of Texas at Austin and to Tom Frecka, University of Notre Dame, for many helpful discussions and ideas that I used in developing this course.

**Required books:**

1. George Dallas, *An Analytical Handbook for Investors, Managers, Directors and Shareholders*, McGraw-Hill, 2004.
2. James O' Loughlin, *The Real Warren Buffet: Managing Capital, Leading People*, Nicholas Brealey Publishing, London, 2004. Warren Buffet is an excellent example of a leading investor who fosters good corporate governance.

**Grading:**

1. **Contribution to class discussion (25%).** This is essentially a seminar class. I expect you to be an active participant in class. I place a high value on active listening and respect for your colleagues when they speak. You can earn a B+ in class contribution just from demonstrating active listening and obvious interest in the class discussion. *Laptops must be closed at all times except during my lectures in weeks one and two. Failure to keep laptops closed will result in loss of all class contribution points.*
2. **Written assignments (25%).** I provide questions about the readings, and I assign questions about the presentations in class. Written assignments about the readings are due at the beginning of class on the date assigned. I do not accept late assignments. Please turn in hard copy of all written assignments.
3. **Course project (25%).** Each student will become an expert in one of the recent frauds—Enron, WorldCom, Tyco, Adelphia, Waste Management, etc.—or Arthur Andersen & Co. I encourage you to work in teams of two – four persons. Your assignment is (1) to prepare a four page memo to hand out to your classmates one week before your presentation, (2) to make a presentation in class (approx. 20 minutes) and (3) to prepare a paper for me (not limited to four pages). During the term, you will be the expert in your chosen fraud, and I shall expect you to contribute to the class discussion accordingly. For example, we discuss boards of directors in session 3, so I will expect you to contribute to that discussion by stating the role of the board in failing to prevent fraud in your case. Students who go on the trip to meet with Warren Buffett will receive full credit for this part of the course work and are exempt from a course project. They will be expected to make a brief oral report (or written if they prefer) about their visit with Buffett.
4. **Final examination (25%).** Open book and open notes exam. The exam will include questions about talks by guest speakers and student presentations.

## Assignments

Session	Topics and work in class	Assignments
1. Jan. 4	<b>Introduction.</b> Purpose of course. Overview lecture on corporate accountability.	Read <i>Governance and Risk</i> (GR), Ch. 1, “Corporate Governance as a Risk Factor”
2. Jan. 11	<b>Fundamental Issues</b> Overview lecture on corporate accountability. Equity Funding fraud.	Read GR, Ch. 2, “Perspective of an External Analyst”, pp. 20-28, and Ch. 3, “Ownership Structure and External Influences,” pp. 41-49.
3. Jan. 18	<b>Shareholders and Directors</b> Presentation by Roger Valine (Day class), CEO of Vision Service Plan and member of several boards of directors.	Read GR, Ch. 4, “Shareholder Rights and Relations”, pp. 61-72, Ch. 8, “The Legal Environment of Corporate Governance,” and Ch. 12, “Directors and Officers’ Insurance and Corporate Governance Risk”.
4. Jan. 25	<b>Financial Disclosure and Auditors</b> Presentation by Rick Blumenfeld, former partner of Arthur Andersen (Day and WP class).	Read GR, Ch. 5, “Transparency Disclosure and Audit”, pp. 86-95 and Ch. 9, “Core Earnings.”
5. Feb. 1	<b>Case studies.</b>	Case studies: Compare corporate governance in Fannie Mae and Central Telecommunications Company, (GR, pp. 526 ff.) Name the three most important differences in corporate governance between the two companies. Name three strengths and three weaknesses in corporate governance for each company and state why they are important.
6. Feb. 8	<b>International comparisons.</b>	Read GR Ch. 7, “Country Influences on Individual Company Governance” and Ch. 10, “Social and Environmental Reporting”. Pick one company in Part Five of GR (pp. 297 ff.). Identify three important differences in corporate governance between that country and the US.
7. Feb. 15	<b>Institutional Investors.</b> Presentation by Dennis Johnson, Director of Corporate Governance, CalPERS (WP class)	Read GR, Ch. 13 “Managed Fund Governance” and Ch. 14 “Public Sector Governance”.

8. Feb. 22	<b>Legal Issues.</b> Presentation by Lee Altschuler, former federal prosecutor and present attorney for white collar crime defendants (Day and WP).	Read GR Ch. 15, “The Human Side of Corporate Governance”
9. Mar. 1	<b>1. Lessons from the top: Warren Buffet</b> <b>2. Project Presentations</b>	Read The Real Warren Buffet, Ch. 1-4.
10. Mar. 8	<b>1. Lessons from the top: Warren Buffet</b> <b>2. Project Presentations</b>	Read The Real Warren Buffet, Ch. 6-10.
11. Mar. 15	<b>Final exam (open book, open notes)</b>	