Accounting 610: **International Corporate Governance**, June 2017

**Class** **Location:** BusAd D-101

**Class Meeting Times:** Wednesday 5:30 pm - 9:10 & Saturday 9:00 am – 12:05 pm, 1:00 pm – 4:05 pm

**Contact Info:** Prof. Thomas (Tom) C. Pearson, Office BUSAD D-306,
email: tpearson@hawaii.edu, Office Phone: 956-7591 (use email for messages)

**Office Hours:** Wednesday 4:50 pm to 5:20, Saturday 12:20 pm – 12:50, and by appointment

# Required Materials: TEXT: *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences (2nd Edition*), by Larker and Tayan (an ebook option exists)

**CASES:** Harvard Business School Publishing Cases, purchase directly from the HBSP**:** http://cb.hbsp.harvard.edu/cbmp/access/61858501

**ARTICLES:** The Laulima course website provides various articles for student presentations.

**WEBSITES:** A Google document provides a sign-up sheet for the course list of articles and websites.

Prof. reserves the right to add required readings and/or websites to enhance the learning experience.

**Course Description:**

**Corporate governance** is the system of rules, practices, and processes by which a company is directed and controlled. This course is designed for graduate students in business and accounting to recognize and understand the complex and critical issues of international corporate governance, financial reporting, and ethics. Lectures, presentations, guest speakers, and cases build knowledge and skills related to corporate governance.

**Course Objectives:**

1. Enhance critical thinking skills using cases raising various corp. gov. issues.

2. Expand breadth of knowledge in basic corporate governance topics
 (Corp. gov. represents 17-27% of CPA Exam section on Business Environment & Concepts)

1. Rights, Duties, Responsibilities, Authority, and Ethics of the Board of Directors,
Officers, and Other Employees (Financial and non-financial reporting; Internal Control;
and Enterprise Risk Management (including COSO or similar framework)
2. Entity-level Controls (Tone at the top – establishing the Control Environment,
Monitoring Control Effectiveness, and Change Control Process).

3. Expand depth of knowledge and research skills in selected issues of interest.

4. Prepare future corporate and non-profit directors to fulfill their fiduciary duties
 of care and loyalty to the entities that they serve.

## TENTATIVE COURSE SCHEDULE AND ACTIVITIES

|  |  |  |
| --- | --- | --- |
| **1A–Wed. eveJune 7 Corp. Gov. Overview and Rating Systems** by ISS, Glass Lewis, & CALPERS | 1. **Text Ch. 1 - Introduction to Corp. Gov.**
2. **Text Ch. 2 - International Corp Gov.**

**3. Text Ch. 13 – International Corp. Gov. Ratings*** What is corporate governance?
* What U.S. agencies and guidelines exist for corp. gov.?
* What are the major components of best corp. gov. practices in the U.S.?
* Do current best practices in corp. gov. sufficiently protect shareholders?
* What is unique about outside investors?
* What protections do outside investors need via gov. regulations?
* What do proxy advisory services and corp. gov. rating agencies do?
 | **1.** Review Syllabus; 2. Introduce Corp. Gov. *Discuss weekly Qs.*3. Student Groups organize. **4.** Individual articles Presented – round 1. |

|  |  |  |
| --- | --- | --- |
| *6/10/2017* | *Last day to receive 100% tuition refund* |  |
| **1C – Sat. am, June 10 Director selection, rights, duties, and issues**  | **1. Text Ch. 3 & 4 – Board of Directors: Duties…**  **Selection, Compensation, and Removal**2. HBS Case – IT Leader* How can the board of directors (board) best balance its roles of “advisor of management” and as an “agent for the shareholders (SHs)?”
* What are other key duties and responsibilities of the board?
* What are the legal and fiduciary obligations of corp. directors?
* Do the responsibilities of directors vary depending on company size?
* What role can D&O coverage play in protecting directors?
* What qualifications, competencies, and skills do directors need?
* How are directors nominated and selected?
* When can an outside director rely on management in making decisions?
* How does the business judgment rule protect directors? Explain.
* What processes help insure that the business judgment rule will protect independent directors when the board considers a significant transaction?
 | 1. Guest Lecture Tung Chan, Hawaiian Airlines

2.Review SEC website, NYSE and NASDAQ listing requirements**3.** Discuss Director selection, rights, duties, and issues,**3.** Individual articles Presented – round 1.**4.** Discuss HBS Case. |
| **2A –Sat. pm June 10 Corp. Gov. theory, principles, reforms, alternatives, and strategic planning** | 1. Dollar General Bid case* How does a board create value and strategy?
* What are the corp. gov. principles that boards should consider?
* How should a director interact with management?
* Should the CEO of a firm also serve as chairman of the board?
* What are some metrics for evaluating board performance?
* Describe the key attributes of a successful CEO.
* What are the key principles for an executive compensation program?
 | **1.** Individual websites presented – round 2. **2.** Review OECD website / Principles of Corp. Gov.**4**. Group #1 meets.**5**. Discuss HBS Case.**6. QUIZ 1** |
| *6/9/2017* | *Last day to receive 50% tuition refund and last day to drop* |  |
| **2B – Wed. eve June 14****CEO, CFO, manage-ment’s role, performance, executive compensa-tion, rights, and duties**  | **1. Text Ch. 9 – Executive Equity Ownership**2. Case: Say on Pay – Qualcomm3. Case: Yahoo – Marissa Mayer’s Challenge* Why is it hard to fire a Chief Executive Officer (CEO)?
* How should the Board of Directors manage CEO succession?
* What are the most important responsibilities of the CEO?
* What is “Say on Pay”?

What are the primary responsibilities of the CFO? | ***1.*** *Group1 presents* **2.** Websites for executive comp. **3.** Individual articles presented – round 34. Discuss cases |
| **2C- Sat am.June 17****Investor Perspectives, Shareholder Rights, Regulations, and Proxies****(separation of ownership and control; institutional shareholder activism)** | **1. Text Ch. 11 –Market for Corporate Control****2. Text Ch. 12 – Institutional Shareholders …**3. HBS Case: “Sovereign Wealth Funds: Barbarians at the Gate  or White Knights of Globalization?” 4. HBS Case: Cracker Barrel* What is proxy voting? What are proxy advisory firms?
* How is proxy access changing?
* How are investment funds structured?

- Does a board oversee the manager?- Does the fund have a related off-shore entity? If so, where is it? - What management practices are used to control risk in a hedge fund?- What degree of gov’l regulation of funds exists? * Should hedge fund executives serve on public company boards?

What is meant by a “carried interest”?  | **1.** **Guest Speaker: Dr. Shirley Daniel 1.** Review investment policies for CALPERS, …**2. QUIZ 2****3.** Individual articles presented – round 3**4.** Discuss Qs **5.** Group 2 meets. |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **3A – Sat. pm, June 17** Board Leadership, Diversity, and Corp. Gov. Issues | 1. Text Ch. 5 – Board of Directors: Structure …2. HBS Case: “Strategic Planning and Governance at Bridge Adult Service…* What does “staggered boards” mean?
* Who makes the best board members?
* Who should select the board members?
* How important is diversity and what is enough diversity?
* What key issues are Boards facing this year?

How should Boards address the issue of risk management? | **1.** Discuss Qs **2.** Discuss case |
| **3B - Sat. PM, June 17**Corporate Gov. at Non-Profits …**- Midterm Exam** | 1. HBS Case: Crandall Univ.* How do non-profit boards handle their governance activities?
* How should a board enhance its relationship with the non-profit organizations they oversee?
* How does governing for-profit and not-for-profit entities differ?
* What is the appropriate corp. gov. for a small business?
 | **1.** Discuss Qs and CG for Non-profits and small business.**2.** HBS case**3.** Individual articles presented – round 4**4. Midterm Exam**  |
| *6/20/2016* | *Last day to withdraw from class – (“W” on transcript)* | *("W" on transcript)* |
| ***1B- Wed. eve, June 21***Financial Reporting, the External Audit, and governance of risk | **1. Text Ch. 10 – Financial Reporting and External Audit****2. Review PCAOB website and reports for a Big 4 audit firm*** What are the key governance provisions of Sarbanes-Oxley (SOX)?
* What does the PCAOB do?
* What regulatory deficiencies might apply to an entity?
* What is the role of the external auditor in corp. gov.?
* How are internal controls and corporate compliance overseen?
* How does a company oversee risk (board, mgmt, or internal audit)?
* What is COSO and its Internal Control and Enterprise Risk Management frameworks?
* What are entity-level controls (tone at the top – for the control environment, monitoring control effectiveness, & control processes?
* What are financial, cyber security, and non-financial risks that exist?
* What are the implications of risk-based auditing procedures?
* How should an independent auditor interact with the Board, the audit committee, and management?
* What is the role of the review partner in an audit?
* Have auditor opinions of internal controls improved financial reports?

Have certification of reports by executives improved reports? | 1.Guest Speaker: Terri Fujii, Partner CW Asso., CPAs2. Review COSO Internal Control and Enterprise Risk Management frameworks. ***2.*** *Students select articles and post self-introductions* |
| **3C – Sat. am.June 24****Corp. Gov., China Hong-Kong, Taiwan** | 1. HBS Case - Agricultural Feed Reverse Merger* What are some of the government and market realities in China that will influence the practice of corp. gov., regardless of the regulations?
* What factors need consideration if asked to serve on the board of directors of a Chinese company?
 | ***1. Guest Speaker: ?******2. Group 2 meets*****2.** Qs and Corp. Gov. in China discussed |
| **4A – Sat. pm, June 24** Corp. Gov. in Asia – Japan, Korea, … | 1. Case: “Sony Corp.– is the Sum Greater than the Parts?” **TB0365**2. Case: “FANUC”3. Case: Toshiba* Summarize the agencies and guidelines involved in corp. gov. in Japan, Korea, China, (and maybe Hong Kong, Taiwan, India, or Vietnam).
* Identify major differences /similarities with U.S. guidelines & practices?
* What firms are considered leaders in good corp. gov. in Asia?
* Should Japan have firms adopt U.S. corp. gov. practices?
* Japanese firms are often accused of following form over substance. How might this impact corporate governance there?
* What are the major differences between Korean and Japanese practices?
* What are new developments in corp. gov. in Asia?
 | **1. QUIZ 3. Guest Speaker: *?*****2.** Group 2 meets**3.** Corp. Gov. in Asia – Japan, Korea discussed. |
| **4B and 4c – Wed. eve, June 28** Corp. Gov. in Hawaii and **in Europe** | 1. HBS Case: “Hermes Paris” **INS5082. HBS Case: Dieselgate Volkswagen**3. Text Ch. 14 –Summary and Conclusions * What agencies and corp. gov. guidelines exist in the U.K. and E.U.?
* How do U.S. and European corp. gov. guidelines compare?
* What is the EU proposal for mandatory auditor rotation?
* Does executive compensation in Europe differ from the U.S.?
* Do German corp. gov. practices reflect a broader view of stakeholders than those in the U.S.? If so, why?
* What corp. gov. practices are most useful for private companies?
* What corp. gov. concerns arise in Hawaii?
 | **1. Speaker:** Russell J. Lau, Vice-Chairman and CEO, Finance Factors**.** 2. Group 2 presents **3.** Discuss Corp. Governance in EU**4**. Individual articles from round 4 |
| **5A – Sat. AM, July 1** – Catch-up and Conclusions | HBS case: TEMASEKWhen does corp gov. not work well?What are the types of monitoring?What characterizes investor activism?Provide an international comparison of corp. gov. What are appropriate governance structures within an organization (e.g. tone at the top, policies, steering committees, strategies, oversight, etc.) | **1.**Individual articles last round **2.** Concluding comments |
| **5B – Sat. PM****July 1 Final Exam** | **Final Exam mostly case analysis and theoretical analysis - Probably one required question for everyone and then select 3 of 6 Qs** | **Final Exam** **- BRING YOUR LAPTOP!** |

**COURSE GRADING:**This course uses a +/- grading system.

An A+ is possible only for the top student in the class, if 97% or higher score is achieved.

**Grade Components:**

 Individual presentations on articles provided in Laulima and websites 40
 provide an electronic handout (5 pts for S/M or Web, 10 pts for L/XL)

 Case write-ups for 5 of the 15 cases (5 pts each) 25

 Class participation for cases and website discussions 25

 **(**All students should participate in each case, graded the last class)

 Group Projects 20
 Midterm Exam – (multiple choice, short answer, and short answer) 20

 Quizzes (3@ 5 each) – (see end of syllabus) 15

 Takehome - 15

 Final Exam in class – (essay questions – mix of theory/analysis and case) 40

##  Total 200

**EXAMS:** Both exams are open book, open note, open internet, but must represent your own work.

**QUIZZES:** These cover the assigned readings for the class and also a few questions from the previous weekend by way of review. The purpose of the quizzes is to assure that everyone comes prepared.

**CASES:**

1. Read and examine the case thoroughly, take notes, and highlight relevant facts.
2. Identify two to five key problems and focus your analysis.
3. Uncover possible solutions and identify the best one.

**Briefing for each of the 5 Case Studies, should include:**

**1.  Information Summary:**

Summarize the important or major pieces of information from the case. Distinguish facts from opinions or assumptions. State your assumptions clearly. Analyze any financial information made available in the case.

**2. Immediate Issue(s):**

Define the immediate problem(s) or identify decision(s) that are needed.
Clarify how long you have to make the decision?
Include associated strategic issues that might influence your decision.

**3. Alternative Solutions: (The most important part!)**

Discuss each option to resolve the problem in a separate paragraph. State the advantages (pro) and disadvantages (cons) of each option. Refer to quantitative and/or qualitative information as needed in order to demonstrate the points raised.

**4. Recommendation(s):**

Based on your analysis of the options, provide your recommendation (restating the best option) and how you would implement it.  The implementation plan should list steps and include a time-frame. State the method(s) you will use to determine if your recommendation and implementation plan are working. Some examples are use of budgets, regularly scheduled meetings or reviews.

**To prepare for class discussion on a case, Read the Case Twice**

Business cases are often confusing and contain superfluous information.  During your first read of a case, you’ll likely miss key points. My experience is that it’s best to spread out the timing between your readings of the case.  Read the case once well before it’s due and read it again shortly before the discussion. Reading a case twice also improves your memory of key data points – sometimes a ratio or statistic becomes a significant part of the case discussion.  Recalling these figures will make it much easier to participate.

Case grading rubric often has 4 equally weighted elements:

1) Clarity of ideas / good writing;

2) Comparative analysis of alternatives;

3) Use of relevant theory, concepts and frameworks;

4) Action plan (recommendation).

The case write-up is due when the case is listed on the syllabus. One should aim to present the article write-ups during the time-slot for the article, but extensions are common, such as for articles relevant for the first Saturday.

**ARTICLES PRESENTED:** Each student signs up to present at least one website and 4 articles (one from each week), of which at least 2 are large (L) or longer articles, and a maximum of 1 small article. The total reading from the articles must exceed 150 pages. Present the important and/or new points; present at least a half-minute per point, using a power-point presentation to highlight key points. Give information only if it adds real value. End with your insights. For the website, direct classmates to valuable parts of the website and summarize take-away points. **Use the google doc. sheet to sign-up**.

**GROUP WORK**: Teams of 3 members, different teams for each project.

**Group Project 1:** Potential topics include: (1) union management relations, (2) the culture within a firm, (3) The role and activities of the Board of Directors and its committees, (4) Competitive environment, (5) Succession management, (6) The political and regulatory environments,
(7) Current and future business strategies, and (8) The employee stock ownership program. The group should analyze how to avoid the firm’s current problems, as well as what action its Board of Directors should take to preserve the firm’s assets and improve its performance.

**Group Project 2:** Describe corp. gov. standards and best practices. Evaluate the corp. gov. practices of 3 companies from the 3 different world regions using a corp. gov. rating system that you will create. Describe the system, justify the components, and describe how to operationalize them. Prepare a PowerPoint presentation and/or handout for the class to describe your system. Review the websites, financial reports and proxy statements for the U.S. firm you have selected and rate their corp. gov. practices. Prepare a presentation for the class explaining your rating/evaluation of the strengths and weaknesses of the firm’s corporate governance practices. Review websites, financial reports, and proxy statements for the Asian and or European firms for your group.

#### Examples for Group Project #2: Choose any industry, but select firms on 3 continents to analyze.

|  |  |  |  |
| --- | --- | --- | --- |
| **Industry/product**  | **US firm\*** | **European firm\*** | **Asian firm\*** |
|  | Kodak (US) | Leica Camera AG (Germany) | Canon (Japan) |
| Automotive  | Ford Motor  | Fiat group (Italy) or BMW (Germany)Peugeot (France) | Tata motors (India)Or Hyundai (Korea) |
| Motorcycle | Harley Davidson | Dukati (Italy) | Kawasaki (Japan) |
| Beer/beverages | Fosters (Australia)Boston Beer Company | Heinekin Holdings N.V. (Netherlands) | Kirin Holdings Company LTD (Japan) or Asia Pacific Breweries, LTD (Singapore) |
| Heavy equipment | Terex, Caterpillar | Volvo Group (Sweden) | Komatsu (Japan) |
| Chemicals | Dow Chemical | BASF (Germany) | SABIC (Saudi Arabia) |
| Defense contractors | Northrop Grumman | SAAB AB Technologies (Sweden) | Mitsubishi Heavy Industries (Japan) |
| Semiconductor | AMD | CML Microsystems (UK) | Mosel Vitelic (Taiwan) |
| Confectionary/snacks | Hersheys | Cadbury (UK) | Meiji Dairies Corporation (Japan) |
| Home appliances | Whirlpool Corporation | Electrolux (Sweden) BSH Bosch und Siemens Hausgeräte (Germany) | LG (Korea)Haier (China) |
| Retail | Walmart | Carrefour | Lotte Shopping Co |
| Airlines | American Airlines | Luftansa | Singapore or JAL |
| Telecom | Sprint | Vodaphone | NTT |
| Electronics | Motorola | Phillips/Nokia | Panasonic/Samsung |
| Oil and Gas | Exxon | BP | China Petroleum, Indonesia Pertamina |
| Semi-conductor services | Teradyne (TER) | ASML Holding NV (ASML) | Advantest (ATE) |

**ATTENDANCE AND CLASS PARTICIPATION:** Class participation points encourage active learning, assertiveness in class, and attentiveness. The classroom experience is a vital portion of the learning process for this course. Outstanding classroom contribution that advances the learning goals of the class is rewarded. You are encouraged to maximize the classroom experience and to speak up and practice effective communication skills that are critical to management. An outstanding contributor is always prepared, builds on others’ comments, and makes insightful, relevant contributions.

Attendance is required to the same extent as if one was working for an accounting or business firm. This class is partially designed to provide experimental learning through classroom exercises for which there is sometimes no substitute. In general, students are expected to attend all class sessions in the sections in which they are registered.  Class sessions provide useful information for understanding the topics covered in the course.  Any reading materials alone may not be sufficient for one to do well in the course.

Business and accounting firms have asked the SOA faculty to help make the students more assertive. Class participation points encourage assertiveness and good communication skills.
The grading for in-class participation will use the following guidelines:

|  |
| --- |
| 25 points = excellent job of volunteering in class and submitting quality work21 points = satisfactory participation when called upon and submitting acceptable work17 points = participation needs more work and a deficiency exists in some submitted work |

**USE OF DEVICES:** Experience shows that students who use their laptops during class to multitask,
e-mail, etc. often acquire less out of the course, and perform less well than students who devote their full attention to the classroom experience. The note-taking process itself has mixed value
– it can document info. and reinforce learning, but it can also become a self-absorbing exercise.

Please do not use your laptops or other internet or electronic devices during class, until specifically asked to do so (which I often will do). Lecture notes presented in class are posted on Laulima.

**ACADEMIC HONESTY:***“The University expects students to maintain standards of personal integrity that are in harmony with the educational goals of this institution; to respect the rights, privileges, and property of others; and to observe …[all] laws and University regulations.”*
Shidler and SOA also have an Honor Code Policy: Please do not copy from another person's memo, exam, or quiz. Please do not fail to cite sources of material that you have quoted or substantially paraphrased. Do not use unauthorized assistance. Don’t hesitate to ask questions.

“Students are expected to behave with integrity in all academic endeavors.  Cheating, plagiarism, as well as any other form of academic dishonesty, are not tolerated.  All incidents will be handled in accordance with the UH Student Code of Conduct. Please review the Student Conduct Code to make conscience and informed choices: [www.studentaffairs.manoa.hawaii.edu/policies/conduct code/](http://www.studentaffairs.manoa.hawaii.edu/policies/conduct%20code/) Relevant portions include: Acts of dishonesty, types of behavior that conflict with the community standards that the UH values and expects of students…

The term "plagiarism" includes, but is not limited to, the use, by paraphrase or direct quotation, of the published or unpublished work of another person without full and clear acknowledgement. It also includes the unacknowledged use of materials prepared by another person or agency engaged in the selling of term papers or other academic materials.

**CLASS LOCATION IN CASE OF EMERGENCIES:**The emergency class site is on the steps down to George Hall out of the Shidler E-Tower.