Part 1: Corporate Governance

- The corporate structure can be traced back over five centuries. Rights and powers were cobbled onto – and, at times, removed from – the corporate structure according to needs of the particular era.
- Do these historical legacies – now applied to complex, powerful, multinational entities – properly serve society's expectations in the 21st century?

Class 1 - Sept. 1

- We will survey how the modern corporate structure was created – whether by design or happenstance.
- First, for A Short History of the Corporation [http://cnx.org/content/m17314/latest/](http://cnx.org/content/m17314/latest/) (You need not do the two “exercises” at the end or what follows them.)
- There were swings by governments between further empowering corporations to create national wealth and exercising greater control over them in response to abuses. The history of the British East Indies Company reflects these swings. [www.flowofhistory.com/units/eme/18/FC123](http://www.flowofhistory.com/units/eme/18/FC123)
- Some corporate traits are still challenged by commentators. Limited liability caps stockholders' potential losses to their invested capital - meaning, stockholders will not normally be held personally liable for their corporation's liabilities. Limiting stockholder liability can permit the corporation to take greater risk. For an argument against maintaining limited liability, please read Prof. Rozeff, Limited Liability, at [http://www.lewrockwell.com/rozeff/rozeff28.html](http://www.lewrockwell.com/rozeff/rozeff28.html)
- Though the law recognizes corporations as equivalent to “natural persons” in conducting their businesses, does that mean that corporations should be equivalent to “natural persons” with respect to civil rights? Some argue that certain civil rights (e.g., free speech) should not apply to corporations. ReclaimDemocracy.org, Corporate Personhood, [www.reclaiedmocracy.org/personhood/index.html](http://www.reclaiedmocracy.org/personhood/index.html). A valuable summary of the opposing positions is found at [http://www.pbs.org/newshour/bb/law/jan-june10/supremecourt_01-21.html](http://www.pbs.org/newshour/bb/law/jan-june10/supremecourt_01-21.html)
- There is no doubt, however, about the current U.S. Supreme Court’s view that corporations enjoy civil rights.
- Should corporations be stripped of their constitutional “rights”?
- Will, Taking a Scythe To the Bill of Rights [http://www.washingtonpost.com/opinions/taking-a-scythe-to-the-bill-of-rights/2012/05/04/glQAs3XL2T_story.html](http://www.washingtonpost.com/opinions/taking-a-scythe-to-the-bill-of-rights/2012/05/04/glQAs3XL2T_story.html)
- Does recognizing the “civil rights” of corporation lead to societal harm?
Bakan, The Kids Are Not All Right
- In the US, fundamental corporate powers of most of the largest corporations are determined by one of the smallest states. Here’s an example of a private company that is “marketing” Delaware law. Corpco, Why Delaware?
http://www.corpco.com/why-delaware/

Class 2 – Sept. 8
- We will examine the status of contemporary corporate governance. Corporate governance encompass the policies that shape how a corporation “thinks” – that is, its corporate culture.

But how important is corporate culture? NY Times, BP Ignored the Omens of Disaster,
Warren Buffet alleges that a Berkshire Hathaway executive violated the company’s principles.
- Ultimately, the Board of Directors is responsible for the corporation’s governance policies. In its proxy statement, prepared for annual stockholder meetings, a corporation describes its Board members and structure. The following, an excerpt from a proxy statement, describes a contemporary Board structure.

Please read Election of Directors, Board Meetings and Committees, pages 7 through 22 of the Goldman Sachs 2011 proxy statement.
http://sec.gov/Archives/edgar/data/886982/000119312512161719/d276093ddef14a.htm#tx276093_2

Some observers believe that managements are not sufficiently accountable to stockholders. They argue that many public corporations are, in substance, “corporations without owners” - meaning, that stockholders dissatisfied with a corporation’s management do not behave as one would expect of owners. Dissatisfied stockholders often prefer to sell their stock rather than confront management. The propensity to sell, rather than fight, is referred to as the “Wall Street Rule.”

Corpgov.net, Ending the Wall Street Walk: Why Corporate Governance Now?
http://corpgov.fatcow.com/forums/commentary/ending.html

However, activist stockholders do exist. Securities & Exchange Commission (SEC) rules permit qualified stockholders to submit “shareholder proposals” for vote at corporations’ annual stockholders’ meetings on a wide range of topics. (The terms “stockholder” and “shareholder” are generally used interchangeably.)
- In the Goldman Sachs proxy statement, supra, review the numerous shareholder proposals on pages 53 (Item 6) through 67 (Withdrawn Shareholder Proposal Regarding an Independent Executive Compensation Review Panel)

Some activist stockholders are idealists. Often owning relatively insignificant holdings in the corporation, they appear primarily concerned with influencing corporate conduct or advancing a social agenda.

Tkac, One Proxy at a Time: Pursuing Social Change through Shareholder Proposals at

The idealists
New York Times, Resolved: Public Corporations Shall Take Us Seriously  
www.nytimes.com/2007/08/12/magazine/12exxon-t.html

Other stockholder activists may appear less idealistic.  
People Magazine, Evelyn Y. Davis  
http://www.people.com/people/archive/article/0,,20141327,00.html

Some investors use activism as a strategy to profit.  

Congress empowered the SEC to decide whether to make it easier for stockholder groups to place directors on Boards.  
Wall Street Journal, Calpers Aims Director List at Increasing Board Sway,  
http://online.wsj.com/article/SB10001424052748703513604575310944269110772.html?mod=W SJ_hpp_LEFTWhatsNewsCollection

Voting against corporate practices is moving mainstream.  
http://dealbook.nytimes.com/2012/06/07/once-reticent-investors-join-shareholder-revolts/

Class 3 – Sept. 15

- We will discuss who are – and who should be – corporate directors.

- The increased emphasis on director independence could be traced back to two paradoxical policies. The first is to create a check on management, often thought of as unaccountable and unduly entrenched. The second is to insulate management against outside attack, such as hostile takeovers.

- Should the focus on independent directors be on maximizing stockholder wealth or are there overriding responsibilities to employees, communities or other “stakeholders” (meaning, groups affected by a corporation’s activities)? Should stock price be the paramount measurement of a management’s performance?

- Here are two articles from Directorship magazine that discuss these questions.

Here are some of the issues that a Board of Directors might focus on. Martin Lipton, the author of this memorandum, may be the country’s most prominent corporate lawyer and counsels a large number of Boards of Directors.

Lipton, Key Issues for Directors http://xbma.org/forum/us-update-key-issues-for-directors-2012-by-martin-lipton-wachtell-lipton-rosen-katz/

- Evaluations of Board quality emphasize the presence and empowerment of independent directors.

Investopedia, Evaluating The Board Of Directors  
http://www.investopedia.com/articles/analyst/03/111903.asp

- Independence standards may mean that Boards of Directors lack specific industry expertise. Does that impact the Board of Directors’ ability to oversee management?

Bloomberg, Whitacre Vows to ‘Learn About Cars’ as Chairman of New GM Board  

- There is no conclusive evidence that independent Boards of Directors enhance corporations’ performance.

Wallison, All the Rage: Will Independent Directors Produce Good Corporate Governance? http://www.aei.org/outlook/23648
One study suggests that only corporate anti-takeover defenses are significant to stock price. Other tests of good corporate governance apparently do not. Bebchuk et al, What Matters in Corporate Governance? Please read the abstract, but you are not asked to read the article. 


- JPMorganChase successfully navigated the 2008-2009 market panic, while Merrill Lynch did not. Please review JPMorgan’s board composition at pages 1 through 3 of its 2008 proxy statement.

http://files.shareholder.com/downloads/ONE/913220195x0x284139/ead6eaf6-063a-45f6-98c8-49ff14044dc3/D8K.HTM

- Compare Merrill Lynch’s board at pages 6 through 9 of its 2008 proxy statement. 


What characteristics of their respective Board composition, if any, account for their different fates?

- Until recently, Berkshire Hathaway had a Board of Directors composed of relatives and associates of its CEO, Warren Buffet. Please review Berkshire Hathaway’s 2001 board composition at page 2 of its 2001 proxy statement. 

http://sec.edgar-online.com/berkshire-hathaway-inc/def-14a-proxy-statement-definitive/2001/03/19/Section3.aspx

- What do Boards look like, statistically? Spencer Stuart Board Index

http://www.spencerstuart.com/research/articles/1538/

Class 4 – Sept. 22

- We will discuss compensation issues.

NY Times, Global Regulators Propose More Transparency for Bankers' Pay


NY Times, How Superstars’ Pay Stifles Everyone Else


- Executive accountability, of course, includes not just compensation, but also the risk of termination.

- In the preceding decade, CEOs received record levels of compensation, but experienced the briefest tenures. There may be a relationship - both in bidding up the value of talented CEOs and in creating among CEOs an “I have to make my fortune quicker” mentality.

Boston Globe, Being a CEO has its perks, but tenure isn't one of them

http://www.boston.com/business/articles/2008/05/11/being_a_ceo_has_its_perks_but_tenure_isnt_one_of_them/

Stan O’Neal Retires From Merrill Lynch.

http://findarticles.com/p/articles/mi_m0EIN/is_2007_Oct_30/ai_n27425894/?tag=content;col1

NY Times, Real Reason For Ousting HP’s Chief

http://www.nytimes.com/2010/08/14/business/14nocera.html?_r=1&ref=business

- Some pundits argue that tax policies also played an unintended role.

- Whatever the reason, the ratio of major corporation CEO pay to average worker pay has increased spectacularly.

St. Petersburg Times, Biden points out disparities between CEO and average worker pay  

- How should talent be “priced?” Can success be predicted?

NY Post, Mets’ $36M mistake Perez sent packing at last  
http://www.nypost.com/p/sports/mets/mets_call_ollie_out_on_strikes_FNAPGYcNYKYNtoOdyyE7L

- Pay for performance. Even the Queen?

Financial Times, Queen to profit from income shake-up  
http://www.ft.com/intl/cms/s/0/ce9dfe3e-a349-11e0-8d6d-00144feabd0c.html#axzz1QqqjZgQU

- CEO compensation is set. JPMorgan Chase (which survived 2008-2009 markets as independent company) and described its compensation plan as follows.

JPMorganChase 2008 proxy statement, Compensation Discussion and Analysis, at pages 9 through 13.  
http://files.shareholder.com/downloads/ONE/913220195x0x185029/d06cf305-14d6-42a5-a331-dfd1dae540df/69337a1.htm#toc69337_10

Who earns the biggest bucks? Does this represent alignment with shareholders' interests?

NY Times, We Knew They Got Raises. But This?  
http://www.nytimes.com/2011/07/03/business/03pay.html?_r=1&nl=todaysheadlines&emc=tha25

Forbes identifies CEOs who give “biggest bang for the buck.”  


- Is ultra-high compensation a thing of the past? Was the “pay czar” successful?

Bloomberg, Banks Can't Return to Old Ways on Executive Pay, Feinberg Says  

Reuters, Watchdog gives pay czar's legacy a failing grade  

Bloomberg, Wall Street Hiring Jumps as Guaranteed Bonuses Return  

Wall Street Journal, Pay Shift at BofA, and Rivals Grumble  

Dodd-Franks, the SEC and Executive Compensation,  
Gray & Cannella, The role of risk in executive compensation, please read the first page at http://findarticles.com/p/articles/mi_m4256/is_n4_v23/ai_20122541/?tag=content;col1
Wall Street Journal, Risk vs. Executive Reward
http://online.wsj.com/article/SB124484447022511071.html
Industry Week, Corporate Executive Pay Programs Encourage Risk Reduction
Reuters, Miraculously Shrinking Bonus
NY Times, Cap on Bank Bonuses Clears Hurdle in Europe

No class on Sept. 29

Part 2: Corporate Social Responsibility and Its Implications
  • Is a good reputation for corporate citizenship an end in itself – or are there financial implications for corporations and investors?
  • Who decides what is a “responsible” corporation?
  • Is corporate philanthropy important to building good reputation – and is “green” the new litmus test?

Class 5 – Oct.6
  • Corporate social responsibility is a contemporary term that refers to good corporate citizenship – considering the interests, for example, of stakeholders and the environment in corporate decision-making. However, American history includes many businessmen who - from religious or ethical motives – were committed to good citizenship long before the concept of CSR was articulated.


A case study: By 1916, Ford Motor Company was wildly profitable. But Ford’s president and majority stockholder, Henry Ford, announced that the firm would terminate a special
dividend that had distributed these profits to stockholders. The court in the ensuing litigation quoted Henry Ford’s statement of his purpose in terminating the distributions. “‘My ambition,’ declared Mr. Ford, ‘is to employ still more men; to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes. To do this, we are putting the greatest share of our profits back into the business.’”

In class, we will discuss whether such a public purpose is consistent with management’s financial responsibilities to its stockholders.

- Some contemporary pundits argue that CSR can go beyond “doing good for its own sake.” Rather, they believe, CSR can create a sustainable competitive business advantage. CSR would then become “doing good for profit’s sake.”


- Whether objectively or with marketing aggrandizement, corporations – especially consumer oriented corporations – tout their claimed social responsibility.


- Other pundits – lead by the late Noble Laureate Milton Friedman – have argued that CSR is a politically oriented distraction from the corporation’s role as society’s economic engine.


- The complement to corporate social responsibility is socially responsible investing (also called “socially conscious investing”). Socially responsible investing (SRI) – as its name implies – considers whether companies are socially responsible as part of the investment-decision process.


- One challenge of SRI is defining and measuring “social responsibility.”

Planned Parenthood Federation Of America (PPFA) Is Many Things To Many People. [http://www.plannedparenthood.org/about-us/who-we-are-4648.htm](http://www.plannedparenthood.org/about-us/who-we-are-4648.htm)


- Moreover, contemporary corporations have complex lines of businesses. Finding “purity” among investments is challenging when there are prohibitions on “sin” stocks, dealing with certain countries, or other criteria.

American Baptist Press, Annuity Board President Defends Investment Policy, Stock Holdings [http://www.abpnews.com/content/view/2367/945/](http://www.abpnews.com/content/view/2367/945/)

- Akin to the S&P500 index, SRI indices have been created to provide investors with a diversified portfolio, comprised of companies that meet specified SRI standards.
Domini 400 Social Index. Please download and review the Fact Sheet at [http://www.kld.com/indexes/ds400index/index.html](http://www.kld.com/indexes/ds400index/index.html)

Whether SRI performance lags, equals or exceeds overall market performance has been debated.


Please download and review the most recent Ariel Fund Fact Sheet from [http://www.arielinvestments.com/prospectusandreports/](http://www.arielinvestments.com/prospectusandreports/)

- The Street has produced excellent SRI-related research (at least in Europe, where there was greater demand for it), but recently has cut back. What does this say about the significance of SRI in the investing community?


**Class 6 – Oct. 13**

- In corporate social responsibility, much depends on “reputation.” Reputation, in turn, is significantly affected by society’s “opinion shapers.”

- Mass media remains the prime “opinion shaper” of corporate reputations.


- Given the increasing complexity of business issues, the media and the public have turned to academic experts for illumination.


- Why does Boeing sponsor a prestigious Sunday morning televised news program? Does the TV program’s typical viewer buy commercial aircraft?


Slate, Eliot Spitzer: How New York’s attorney general became the most powerful man on Wall Street [http://www.slate.com/id/2108509](http://www.slate.com/id/2108509)


- Activist groups – also called non-governmental organizations (NGOs) – are increasingly influential. Some work within “the system.” Note the following three articles from Ceres, the largest North American environmental coalition, and focus on its relations with Dell.

Ceres, Stakeholder Engagement: Case Studies  

Ceres, 2010 Conference Sponsors  

- Other NGOs choose confrontation. Ironically, some of the most allegedly violent demonstrations are protesting violence against animals.

The SHAC7 Support Fund  
http://www.shac7.com/

Department of Justice, Most Wanted Terrorists  
http://www.fbi.gov/wanted/terrorists/tersandiego_da.htm

- Top-tier financial analysts can affect stock prices. Their views on a corporation’s management and strategies are widely read in the financial community – and often also read by the subject corporation’s Directors and management.

Kuperman et al, Financial analysts in the media: Evolving roles and recent trends  

- Credit rating agencies, like Moody’s and Standard and Poor’s, were formerly important shapers of reputation in the investment community. In the words of one commentator, as a result of their purported role in precipitating the financial crisis, the status of CRAs has fallen from overreliance to mistrust.

What role did the credit rating agencies (CRAs) play in the financial crisis?  

- Proxy voting advisory services, which advise institutions how to vote at shareholder meetings, enjoy great influence. The Bebchuk article from Class 3 questions the relevancy of much of what these advisory services consider.

Proxy Adviser RiskMetrics Urges Vote Against 3 Massey Directors  
http://online.wsj.com/article/SB10001424052748703322204575226762609197660.html

Class 7 – Oct. 20

- Philanthropy has traditionally been viewed as a significant measure of corporate citizenship.

- Paul Newman, actor and philanthropist, led efforts to increase the “quantity and quality” of corporate philanthropy.

Committee Encouraging Corporate Philanthropy  
http://www.corporatephilanthropy.org

- Some corporations focus their philanthropy on activities related to the products they produce.

Colgate  

- Some corporations even make philanthropy a cornerstone of their consumer marketing.

Ben & Jerry’s  
http://www.benandjerrysfoundation.org/what-we-do.html

- Arguably the most successful corporate philanthropy program is associated with fast food.

Ronald McDonald House Charities  
http://rmhc.org/who-we-are/our-relationship-with-mcdonald-s/

- Corporate philanthropic commitments can be breathtakingly large.
NY Times, Wal-Mart Gives $2 Billion to Fight Hunger
- But, can corporate philanthropy be “akin to bribery?”

NY Times, A Decade of Wooing Wins a Harlem Store for Target
- There is controversy regarding some traditional recipients of corporate generosity.

USA Today, Advice From The Top: Leaders Need Scouts’ Qualities
- Corporate philanthropy often emphasizes the locales where the corporation operates. Headquarters locales typically enjoy disproportionate corporate generosity. Loss of a headquarters, however, can be disruptive to the community.

Bloomberg, Seattle Music, Fireworks Fans Fret as WaMu Bust Threatens Funds
- Is corporate philanthropy spent efficiently and effectively? Corporations that are otherwise managed by metrics find that measuring their philanthropic impact is challenging.

Nardell, Show Me the Numbers http://onphilanthropy.com/2006/show-me-the-numbers-measuring-corporate-giving/
- Many corporations match employee contributions, thereby generating employee goodwill.

A Guide To A Successful Matching Gift Program
http://www.michiganfoundations.org/s_cmf/bin.asp?CID=536&DID=11108&DOC=...
- Employee volunteer programs are another strategy that enhances employee morale – and can be quite effective.

VolunteerMatch: Why Have An Employee Volunteer Program?
http://www.volunteermatch.org/corporations/resources/businesscase.jsp
- Relating corporate philanthropy to economic cycles.

BusinessWeek, The Future of Corporate Philanthropy
http://www.businessweek.com/globalbiz/content/dec2008/gb2008128_757524.htm

Class 8 – Oct. 27
- Environmentalism may have surpassed philanthropy as the litmus test of corporate citizenship.
- Environmentalism has captured the concern of the educated and affluent that dominate consumer – and political – decision-making.

Though consumers generally are not inclined to pay more for environmentalism, especially in a weak economy.

NY Times, As Consumers Cut Spending, ‘Green’ Products Lose Allure Spending, ‘Green’ Products http://www.nytimes.com/2011/04/22/business/energy-environment/22green.html?_r=2&hp=&adxn1l=1&adxn1lx=1303470357-UfrMq1e1p3cjNgGahF+ig

Activists have focused on financial intermediaries and not just the polluting companies. Their strategy is to cut off financing to entire industries and hence to stop the polluting activity industry-wide.

Some corporations have responded with increased transparency of their environmental policies.


Economic fears amplify when the economy weakened.


Cap-and-trade, a market based approach to reduce carbon emissions, failed in Congress and is under attack in the states


The Hill, Cap and Trade’s sad history http://thehill.com/blogs/congress-blog/energy-a-environment/113553-cap-and-trades-sad-history-


Has momentum been lost?

BBC, Australia shelves key emissions trading scheme http://news.bbc.co.uk/2/hi/8645767.stm

Other emerging Green Technologies are questioned


Is natural gas the future?

The Economist, Shale of the Century http://www.economist.com/node/21556242

Is energy independence just over the horizon?

Part 3: Corporations and the Public Sector

- Good citizenship means responsible dealings with public officials.
- What role should government play in promoting particular industries and companies?

Class 9 – Nov. 3

- Corporations (as do other institutions) seek to influence the political process and shape legislation in their favor.
- As political campaigns become increasingly media intensive – that is, even more costly – political fundraising becomes ever more important. The Federal Election Campaign Act sets the rules for political contributions.

Federal Election Commission. The Campaign Finance Law
http://fec.gov/pages/brochures/fecfeca.shtml#Campaign_Finance_Law

- Corporations are barred from making contributions to Federal election campaigns. But corporations may sponsor political action committees (commonly called, PACs). Corporate employees may voluntarily contribute to these PACs that, in turn, contribute to Federal election campaigns.
- Corporations also can permit on-site fundraising opportunities, when members of Congress personally solicit the corporation’s senior employees.
- Many corporations ignore Presidential campaigns and focus on Congressional campaigns – especially the campaigns of members of Congressional committees that oversee the particular industry.
- Observers expect that, the more an industry is affected by political decisions, the greater would be its commitment to lobby and make political contributions.
- Who gives and to whom?

Open Secrets, Heavy Hitters (Federal only) http://www.opensecrets.org/orgs/list.php?order=A
Open Secrets, Top PACS (Federal only) http://www.opensecrets.org/pacs/index.php
Open Secrets, Oprah Winfrey
- Congressional committee oversight responsibilities could have campaign fundraising implications.

Bloomberg, Geithner May Abandon SEC-CFTC Merger Resisted by U.S. Lawmakers
http://www.bloomberg.com/apps/news?pid=20601087&sid=aKcPdR439oFs
- Notice that the largest category of donors to Senate Agriculture Committee is from finance industry, not agribusiness.
http://www.opensecrets.org/cmteprofiles/overview.php?cmteid=S02&cmte=SAGR&congno=111&chamber=S
- The strategy of supporting key incumbents, however, may not be without limits.
Politico, Wall St. plans payback for reg reform

- “Call your Congressman” ads have been used to circumvent campaign contribution restrictions. Note that the ad doesn’t expressly tell viewers how they should vote.
- A relatively recent development is the “leadership PAC” created by highly influential members of Congress. These prominent members then distribute money received to the election campaigns of less influential members.
- Some pundits argue that a purpose of leadership PACs is to allow the more powerful members of Congress to “buy” the gratitude and loyalty of fellow members of Congress.

Open Secrets, Leadership PACs

- The US Supreme Court changes the political landscape. Or has it, since the money has flowed all along? Review the following article, which was also assigned for Class 1.

PBS, Supreme Court OKs Corporate Campaign Contributions

- Many corporations and industry associations hire “lobbyists” to present their positions to members of Congress and their staffs. Lobbyists may be corporate employees or independent entities, such as law firms or specialized lobbying firms.

Associated Press, Fannie Mae, Freddie Mac Spent Millions On Lobbying
http://www.usatoday.com/money/companies/2008-07-17-fannie-freddie-lobbying_N.htm

- A call for reform.

NY Times, Under Siege By the Lobbyists,

- In addition, many lobbyists serve entire industries and not just individual companies. Industry organizations are called “trade associations” or, more simply, the “trades.” This strategy shares costs and often shields individual companies from the spotlight.

NY Times, Lobbyist Says It’s Not About Influence

The Hill, Top Lobbyists: Associations

- The private sector inevitably will try to bulk up its lobbying efforts whenever the stakes are high.

The Hill, Democrats’ ambitious legislative agenda pushes K Street salaries skyward

U.S. News & World Report, Snake Eyes for ‘Casino Jack’

New York Times, New Lobbying Rules, From Bagels to Caviar
In light of this sensitivity, some corporations provide transparency about their political strategies. Some provide for Board of Directors-level oversight.

Merck, Advocating Pfizer, Lobbying and Political Contributions
http://www.pfizer.com/responsibility/grants_contributions/lobbying_and_political_contributions.jsp

Is political spending a waste of corporate assets?
Wall Street Journal, Political Spending Pays,
http://professional.wsj.com/article/SB10001424052702303734204577468443488066430.html?mg=reno64-wsj

Class 10 – Nov. 10

Lobbying is, of course, important because governmental policies can mean the difference between corporate success and corporate failure. Virtually all countries have some policies that either favor or disfavor particular industries. For example, many countries provide agricultural subsidies, tariffs and other policies to support farmers. Some also seek to deliberately intervene in the industrial economy to “pick winners” – that is, to assure certain industries or companies will flourish, even at the disadvantage of others.

Some pundits consider the Federal government’s intervention to save GM and Chrysler as an example of an industrial policy.

Moran, The Rebirth of Industrial Policy

NY Times, In U.S., Steps Toward Industrial Policy in Autos

Taking stakes in failing entities could eventually return money back to the government, if the company survives.

NY Times, US Sells 20% of its Citi Shares at a Profit,

But the concept of industrial policy extends beyond intervening to save failing companies.


Once the government investment is made, should decisions be made primarily based on what’s best for the company or on what’s best for the country?

The results of past US industrial policies have been mixed.

AP, Carter’s Synfuel Push Falling By The Wayside as Regan Cuts Budget,
http://news.google.com/newspapers?nid=1696&dat=19810219&id=W60cAAAAIBAJ&sjid=B0cEAAAAIBAJ&pg=6393,3252447

Commercial aircraft are so costly that their sales meaningfully affect a nation’s trade balance. Hence, the promotion of aircraft manufacturers is a priority on both sides of the Atlantic.

Bloomberg, WTO Upholds Ruling for Airbus in Saying Boeing Got Illegal U.S. Subsidies
National security is often used to justify market intervention. Why We Need The Jones Act, http://www.mctf.com/why_we_need_jones_act.html

What does “national security” extend to?
TIME, Money’s Paper Chase http://www.time.com/time/magazine/article/0,9171,1198886,00.html

Is the ban on Internet gambling intended to protect Americans from sinning or to protect tax revenues?
Washington Post, Against All Odds http://www.washingtonpost.com/wp-dyn/content/article/2006/08/03/AR2006080301390.html

States also have industrial policies, as they compete for attractive jobs. A subsidy or tax abatement to attract a business can mean that other citizens must pick up the revenue slack or experience diminished services.
WSJ.com, Southern States Poach Businesses Amid Downturn http://online.wsj.com/article/SB124485634480511841.html

Tax credits can determine where companies chose to locate operations.

Perhaps the most visible contemporary industrial policies involve fostering “green tech.” France has developed the world’s most effective nuclear generating capability – with China possibly to follow. California successfully compelled higher energy efficiency standards and has mandated that a significant portion of its electricity will be green tech generated.


The industrial policy debate enters the 21st century.

Part 4: Crisis Management

There is a significant chance that in your nearly half-century career in the business world, your company – perhaps, you personally – will experience a crisis.

Crises can occur for reasons ranging from employee malfeasance to natural disasters.

How a company addresses a crisis – as measured by shareholders, governments, consumers and communities – may determine if the company expires, limps along, or goes forward towards a promising future.
In 1982, an unknown person poisoned bottles of Tylenol, manufactured by Johnson & Johnson, killing seven people in the Chicago area. Johnson & Johnson’s response created the template for effective crisis management.

NY Times, Tylenol made a hero of Johnson & Johnson: The recall that started them all

The U.S. Department of Defense offers a course in crisis management. The course categorizes four types of crisis: faux pas, terrorism, accidents, and transgressions.

http://www.ou.edu/deptcomm/dodjcc/groups/02C2/comm%20theories.htm

Here is how the course analyzed Johnson & Johnson’s response.
http://www.ou.edu/deptcomm/dodjcc/groups/02C2/Johnson%20&%20Johnson.htm

Is the “Tylenol Template” still valid in the digital age?

National Underwriter, Digital Age Distances Toyota, Tylenol Recalls, Expert Says

Getting proactive.

Newsweek, Toyota’s Digital Disaster
http://www.newsweek.com/2010/02/03/toyota-digital-disaster.html

2010 Crisis #1: Toyota. Compare Johnson and Johnson’s rapid response to allegations about Toyota.

NY Times, House Panel Says Toyota Misled Public on Safety

The Role of Corporate Culture. Compare Johnson & Johnson’s corporate culture that stated that the company should always put customers first.

Time, Behind the Troubles at Toyota
http://www.time.com/time/business/article/0,8599,1963595-1,00.html

NY Times, An Apology From Toyota’s Leader

2010 Crisis #2: Goldman Sachs. What’s the role of Goldman Sach’s culture?

NY Times, S.E.C. Accuses Goldman of Fraud in Housing Deal

Daily Beast, A Primer on the Goldman Sachs Scandal

Wall Street Journal, Goldman settles its battle with SEC

2010 Crisis #3: BP. What’s the role of BP’s culture?

NY Times, BP ignored the omens of disaster
http://www.nytimes.com/2010/06/19/business/19nocera.html

Insensitive thinking memorialized
- Need for candor, credibility and trustworthiness

Reuters, Analysis: BP PR blunders carry high political cost [http://www.reuters.com/article/idUSTRE65S3JL20100629]
- Show you are a regular gal/guy. BP executives invariably appeared on TV without ties and jackets, “ready to work.” But then…

- Speak carefully – or else

- Accessibility

NY Post, Talk to me Lloyd [http://www.nypost.com/p/news/business/talk_to_me_lloyd_60jiicEMBkOa15BdLCqGjJ]
- “We’re good people”


Reuters, Toyota gets Tesla stake, Tesla gets Toyota factory [http://www.reuters.com/article/idUSN2023511120100521]
- Bad headlines can mean a Congressional hearing.

- The immediate impact of a crisis can be felt in the corporation’s stock price.

Please read NY Times, Reputation’s Price, the second story at [http://www.nytimes.com/2010/07/19/business/19views.html?_r=1&scp=1&sq=reputation%20price&st=cse]
- When does the story fade away? Four years ago, Duke lacrosse players were charged with rape and other crimes. The case was dropped after the complaining witness admitted that she had fabricated her story and the prosecutor was disbarred for unethical conduct in bringing the case. None of the players charged played on the 2010 team. But here’s the story that ran…


Class 12 – Dec. 1
- The final class is reserved for review, summation, and developments that will have occurred during the semester.