

Corporate Governance and Accountability:

What Do We Know and What Do We Teach Future Business Leaders?

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Good Afternoon! I am pleased to be here today, representing The Aspen Institute Business & Society Program. This mission of this program is to develop business leaders for a sustainable global society. A tall order, and one that we believe is inseparably linked to business education. One of the premises of our work is that *business education matters*. We believe that not only the tools and techniques—but also the mindsets and attitudes conveyed in business schools—directly influence the attitudes and the degrees of freedom that students believe they have once they embark upon their management careers.¹

That said, about a year ago we decided that it would be valuable to learn more about the prevailing models of corporate governance and theories of the firm, as they are understood, researched and taught by business school faculty.² We are not economists ourselves, so we approached this inquiry from the stance of learner, much as we expect business students do. And that is the stance I take with you here today.

Our inquiry was prompted by a number of questions:

- What is currently being taught to MBA students with regard to the purpose of business and the appropriate theory of the firm for achieving that purpose?

¹ “Where Will They Lead? MBA Student Attitudes about Business & Society”, www.aspenbsp.org.

² This initiative on Corporate Governance and Accountability is conducted by The Aspen Institute Business & Society Program, supported by The Sloan Foundation. This paper is based on interviews and reports prepared by Mary C. Gentile and Maureen Scully.

- To what degree is the concept of shareholder primacy taken as an article of faith by professors of finance, economics, accounting, law and strategy?
- Does the spate of corporate scandals in the early part of this century cast any doubt on the functioning of the market system? Were these individual failures, or failures of the broader process and system of incentives?
- What about growing societal attention to the impacts of business practices on environmental and social conditions? Does this threaten a shareholder primacy model? Or is a shareholder primacy model consistent with social responsibility, as Milton Friedman argues?
- In sum, how comfortable are faculty in these disciplines with the maximization of shareholder value as the bottom line in managerial guidance?

We were confident that faculty who taught in business ethics, business and society, and corporate social responsibility were already asking many of our questions. But we wanted to learn more about whether and how faculty in the traditional disciplines of finance, economics, accounting, strategy and business law were thinking about them.

So in May of 2003, we began a series of in-depth interviews with 30 scholars at leading business academic institutions around the United States. (See Appendix I for a list of interviewees.) Then in January 2004, we brought 16 of them together for a day long dialogue on “Corporate Governance Revisited: What Do We Know and What Do We Teach Future Business Leaders?” (See Appendix II for the dialogue agenda.)

The material gathered from the interviews, the convening, and accompanying research has yielded a rich picture of what is currently taught in MBA programs

regarding corporate governance and accountability; the strengths and limitations of this material; the questions left unanswered – or more troubling – unasked; and some promising approaches for addressing these gaps.

I want to spend a few minutes today sharing some of the things we learned from these conversations, about faculty perspectives, concerns and teaching approaches. I will share some “teachable questions:” that is, questions that can be appropriately raised within the context of a discussion of corporate governance, theory of the firm and the shareholder value maximization model, in an effort to make visible the implicit and sometimes incomplete or inaccurate assumptions that undermine students’ thinking about this model. The Aspen Institute Business & Society Program is currently preparing to develop teaching materials based on the themes and questions gleaned from this project, and these materials will be made available to faculty via their website when they are completed. I hope that today’s session will be an opportunity to gather suggestions from you that will enrich the ultimate teaching products, particularly with insights from scholars based outside the United States.

So what did we learn from our conversations? We started our inquiry by asking “How is corporate governance and accountability currently addressed in the MBA curriculum in your discipline, at your school? What are the strengths of this approach and what are its weaknesses?” And to begin with, the majority of the scholars we spoke with suggested that corporate governance, as it refers to board practice and governance, was not taught very much at all, except in the occasional case on mergers and acquisitions or in some scattered elective courses. On the other hand, corporate governance, as it relates to a theory of the firm based on the maximization of shareholder value, was implicit in

most of their courses, and sometimes explicitly addressed in finance classes. One of the first lessons we learned was the power of the unspoken: that is, the norm that does not even need to be named and addressed is more powerful than the theory that needs to be defended.

There are exceptions, of course, such as INSEAD's Mary O'Sullivan who teaches a course that addresses comparative governance models. But the norm was shareholder primacy and in our conversations, the interviewees began from an espoused comfort with this model. They pointed to the problems it solved, such as the principal/agent problem of managerial control and the challenge of protecting investors who lack the apparent contractual safeguards of employees and creditors and suppliers. And they argued that when working as theorized, the market took into account social costs, and the current stock price included an estimation of expected future gains and losses. In other words, we needn't worry about the environment or social inequity, because the market would not reward a company that was going to exact future penalties for poor behavior. This was the "business case" for attending to stakeholders other than the shareholder. It was just good business. And on the other hand, the market prevented managers for going too far in their "do-good" efforts through the discipline of the share price.

As one faculty member described it, what makes the shareholder primacy model intellectually satisfying and useful in the classroom is that it gives concrete guidance on making trade-offs by optimizing on the interests of *one* stakeholder (the investor) as a means to add value for all of society. There is an elegance to it, in its apparent simplicity.

And when it came to the recent corporate scandals, many faculty argued that these were not examples of the failure of the shareholder primacy model. Rather they were examples of the failure to maximize value on behalf of shareholders.

If we had stopped there, it would seem that the main challenges facing corporate educators (and practitioners) today is to weed out the unscrupulous (that is, those who place their own interests above the shareholder) and to prepare managers to better predict what actions will impact share price, how and how much – no small tasks, we would argue.

But we continued to ask the “naïve” questions, inquiring about the times when this maximization of shareholder value might not function as theorized. We heard a variety of responses, some of them expected but others quite surprising. For example, reflecting on current scandals, some noted that the maximization of long term shareholder value does not necessarily equal the maximization of short term stock performance, but that many people act as if it did. One interviewee pointed out that the experience of the recent dot.com bubble gave the *appearance* that one could actually “manage” the market because certain actions could fairly predictably lead to jumps on share price. He likened this to trying to *manage the scoreboard* at a baseball game, rather than focusing on the skill and training of the players on the field. In an editorial in *Barron’s*, Roger Martin, dean of the Rotman School of Management at the University of Toronto, argues that using stock price as a major tool in incentive compensation structures similarly leads executives to try to manage the expectations market, rather than true and longer term performance.³

³ “The Wrong Incentive,” Roger Martin, Editorial Commentary in *Barron’s*, December 22, 2003.

So the problem of short term and long term time horizons emerged as one of the first and most complex caveats our faculty raised with the shareholder primacy model. That is, the market was supposed to account for the longer term horizon but the rewards in place for managers (and directors) all mitigated to the short term.

And this caveat then opened the door to inquiry that is typically not included in classroom discussions but might fruitfully be added. That is, certain “teachable questions” emerged, opportunities for faculty to encourage students to think beyond the implicit assumptions of the shareholder primacy model. In this instance, when discussing incentive models faculty might ask: **Under what conditions does short term stock performance equal the maximization of shareholder value?** Or put another way: **When is share price a good indicator of the value of the firm?** This opens the door to such considerations as the liquidity of the stock and the quality of analysis available on it.

And once we began to question how well share price reflected the value of the firm, questions regarding the quality and quantity of information surfaced. Of course, faculty noted the standard concern for information asymmetries which can distort the investor’s ability to make judgments about the long term costs and benefits of managerial decisions. This can be an opportunity to discuss the problem of “cooking the books” from the point of view of the investor, making visible the ways in which this managerial practice undermines the very model of economic functioning that the faculty’s courses are based upon. That is, **if the information is intentionally distorted, how can we argue that the market will work efficiently?** – another “teachable question.” And if one then argues that the market will discount for a certain amount of distortion, when will this chain of perverse incentives end?

Our discussion of information led some faculty to talk about the importance of transparency and communication with all the relevant audiences. The “teachable question” became: **Is communication to all relevant stakeholders the key to balancing short-term and long-term interests?** Rather than accepting the share price as the only means of communication, even Michael Jensen has written an essay encouraging executives to “Just say no to Wall Street,” arguing that a blind devotion to managing market signals at the expense of sound business practices is not optimal.⁴ An interesting discussion example might be AES Corporation, a U.S. energy corporation. Because of its espoused values commitments, the Security and Exchange Commission to include a statement in its prospectus when it went public that stated in part:

An important element of AES is its commitment to four major “shared” values: to act with integrity, to be fair, to have fun, and to be socially responsible...AES believes that earning a fair profit is an important result of providing a quality product to its customers. However, if the Company perceives a conflict between these values and profits, the Company will try to adhere to its values—even though doing so might result in diminished profits or foregone opportunities...⁵

We might ask: **Can such communication function to expand managers’ and directors’ degrees of freedom when trying to look to the long term in their decision-making, without providing a “cover” for self-dealing?**

By this time, our faculty participants were beginning to be engaged in identifying the places where the “elegant simplicity” of the maximization of shareholder value model

⁴ Fuller, Joseph and Michael C. Jensen (2002), ‘Just Say No to Wall Street: Courageous CEOs are putting a stop to the earnings game and we will all be better off for it’, *Journal of Applied Corporate Finance*, 14 (4), 41-46.

⁵ AES Corporation, Prospectus, June 25, 1991. pp. 27 and 28.

appears to break down, the places where it did not answer their own questions. For example, many of our interviewees had articulated the so-called “business case” for attending to stakeholders other than shareholders: that is, the long term value of the firm requires keeping employees and suppliers and customers happy, or at least happy enough.

But some pointed to problems with that formulation. The first glitch had to do with problems of the “commons:” social or environmental costs that affected many but were “owned” by no one and therefore did not get picked up in the business case. The economists in our sample quickly pointed out that these were the domain of government and regulation, so the pursuit of self-interest can be socially optimal in societies where there are these checks and balances.

But one faculty member then asked: “But what can I tell my students in emerging markets where such checks and balances are not always codified?” Another argued that the shareholder primacy view of the firm does not hold up in parts of the world where labor is not protected by contracts, as this model assumes. In fact, when faculty shared examples of where the maximization of shareholder value appears to break down as a guiding principle for governance, these often were instance where firms from countries with more extensive institutional infrastructure did business in countries with less infrastructure, and this led to the opportunity for abuses at both ends of the transactions.

Finally, one participant pointed out that our whole discussion was premised on the sense by many that even in places where these checks and balances exist like the United States, they have not necessarily worked to protect the commons. Which finally brought our participants to another “teachable question:” that is, **if the case for the social responsibility of the shareholder primacy model is premised upon the existence of**

government attention to externalities, what is the appropriate role for business when it comes to governmental lobbying? This question becomes particularly critical when, once again, the issue of asymmetrical information can skew the fairness of business's participation in the policy process.

Robert Reich, for example, argues that:

The meta-social responsibility of the corporation... is to respect the political process by staying out of it... [yet] just the opposite is occurring. Even as institutional investors impose ever greater pressure on management to maximize returns, causing corporations to loudly eschew broader social responsibilities, corporations are becoming more openly and aggressively involved in the making of social policy.⁶

The importance of this question was brought home in our faculty interviews when we learned that in too many schools, the very concept of “externalities” had been crowded out of the economics curriculum, and that students did not have the explicit opportunity to connect the dots regarding the idea that, even on its own terms, the shareholder primacy model was dependent upon each entity – business, government, investors, customers, etc. – playing their appropriate roles without undue interference.

By now you can see that our conversations were gradually uncovering and questioning several of the fundamental assumptions upon which the implicit faith in the shareholder primacy model was premised: assumptions that underlie the idea that the interests of relevant parties will be aligned through the mechanism of the market. That is,

⁶ Reich, Robert B. (1998), ‘The New Meaning of Corporate Social Responsibility’, *California Management Review*, 40 (2), 16.

that the market will have adequate and accurate information to judge firm value, over the long term. And that non-shareholders will be adequately protected by contractual arrangements, or in the case of externalities, by government action.

But our conversations moved beyond a questioning of this alignment of interests between shareholders and others, to an unpacking of the idea of the shareholder itself. The questions were posed: **Who are the shareholders, and what are their interests?** For example, there is diversity within the pool of shareholders: they have different time horizons, different tolerance for risk, and different investment objectives. The example of takeovers was discussed: some faculty stated that research suggests that more than 50% of takeovers do not add value, so the question became: **Whose value do we maximize: that of current or future shareholders?** And which approach is consistent with the maximization of long term value?

So there seems to be a fundamental disconnect between the stated goal of maximizing long term value, and the assumed mechanism for doing so which often turns out to be a focus on short term share price. Many of our interviewees argued that share price, when understood properly, does indeed capture long term value, but as our conversations progressed they identified more and more circumstances that tend to mitigate against this view (unsuccessful takeovers, earnings management, etc.).

And such circumstances were often triggered by an undifferentiated view of the investor as focused exclusively on short-term share price returns. As long as they hold this view, managers will think it futile to attempt nuance in their communication with investors. But some faculty questioned this narrow view of shareholders in light of recent behavioral economic research that suggests that individuals don't always just maximize

economic utility.⁷ So a “teachable question” becomes: **What are shareholder interests and how can knowledge of these interests inform corporate communication efforts?** In other words, will investors, properly informed, grant managers and directors more degrees of legitimate freedom in decision-making? Certainly the burgeoning realm of socially responsible investment suggests some opportunity here.

Another way in which this undifferentiated view of the shareholder can thwart the theory is when it triggers an exclusive focus on firm performance at the expense of the wider industry. The example faculty raised here had to do with individual companies that engage in “category killing” behaviors that drive out competition to a degree that serves the individual firm in the short run but ultimately harms the industry, and therefore, the consumer as well as the diversified investor. Sunbeam’s “Chainsaw Al” Dunlap was noted as an illustration.

And again, this perspective is related to the way we “construct” the shareholder: is he or she a diversified, long term investor, or rather a short term investor with a single firm orientation? And although both types of investors clearly exist—after all, there are hedge funds and there are index funds and there are employees who hold only their employer’s equity—the theoretical “balancing act” that the market is expected to perform does require the ability to attend to both.

So how can long term and broader societal risks and impacts be measured, both by investors and managers? Although our faculty interviewees did not have simple answers to this question, they noted that the inability to measure and weigh wider stakeholder impacts is often cited as a key reason why they cannot be used to guide

⁷ Henry Mintzberg, Robert Simons & Kunal Basu, “Beyond Selfishness,” *MIT Sloan Management Review*, Fall 2002, Vol. 44, No. 1, pp. 67-74, Reprint No. 4417.

managerial decisions. And yet, the shareholder primacy model suggests that somehow, this measurement and weighing and balancing of stakeholder impacts and risks is *exactly* what is supposed to be going on. How can this be so, when our discussion suggests that even the explicit measurement of shareholder risk and impact is not as clear as had been suggested? But discussants identified a number of initiatives, both among business practitioners and academics, to identify non-share price measurements that may do a better job of capturing a longer performance timeframe (balanced scorecard, accounting for intangibles, incentive systems with lagging indicators, etc.).⁸

By this time in our conversations, participants have conceded a number of problematic assumptions in the shareholder primacy model. But there is still the issue of the law. Many faculty, students and business practitioners argue that legal constraints *prevent* managers and directors from making decisions that might serve the firm or its other stakeholders at the risk of a lower short term share price, even in the interest of longer term viability. After all, doesn't a business education have a responsibility to teach students the law, as it exists, regardless of what one might like it to be?

Here a number of surprising observations surfaced. To begin with, it became evident that attention to business law was not necessarily a required subject at a number of business schools. Although it was argued by some that this was due to the way in which business law had been taught—that is, too academic, not managerial enough—there was a concern that students either did not learn to identify basic legal distinctions

⁸ For example, a working group of business leaders born out of the Corporate Values Summit (June 2004), sponsored by The Aspen Institute and The Conference Board, has begun to work on a list of such metrics. And the “balanced scorecard” methodology, developed by Robert Kaplan, continues to be expanded to include mechanisms for capturing the promise and the potential risks inherent in the relative health of various stakeholder relationships.

(the nature of fraud, for example) and/or that they were encouraged to view the law as just one more variable to be managed, rather than as a baseline for action.

This strand of conversation served to highlight another fault line in the previous discussion: that is, earlier some argued that the shareholder primacy model worked and avoided the pitfalls raised by its critics precisely because of the legal and institutional context in which it functioned. That is, the law was seen as a critical part of the context that allowed the market to avoid excesses. The only concern had appeared to be for those countries that might not have that same level of legal and institutional infrastructure.

But now, some faculty argued that violations of the law are not merely due to individual misbehavior, but actually are implicitly condoned in a managerial curriculum that either judges the guidelines of the law not important enough to teach or, on the other hand, as mere constraints that can be traded off given certain circumstances. The classic example offered by several of the faculty was the case of a dangerous product where the firm judges that it is more cost effective to suffer the occasional product liability lawsuit, and pay a settlement with a “gag” order that prohibits the plaintiff’s discussion of the case, than to actually comply with product safety regulations.

Beyond this initial recognition that the law is not always taught in the management classroom, faculty went on to question just what the law required of executives and directors when it came to the maximization of shareholder value. The default position that appears to be either explicitly taught or implicitly presumed is that shareholder primacy rules. However, once again, as we pushed on this position a bit, other ideas surfaced.

Some of the legal scholars in our discussion argued that there was more room for explicit attention to non-shareholders than one might assume. The guidance of Delaware courts regarding this question was bandied back and forth; cases that allowed for greater board discretion were pitted against those that did not. Although several interviewees argued that these courts were moving to provide even greater shareholder protection, one faculty suggested that this did not grow out of a shareholder primacy position but rather out of a commitment to better hold directors accountable for their duty of care and duty of oversight.

A historical critique of the law on this issue yielded the argument that, in fact, U.S. law was based more on a “director primacy” model than a shareholder primacy model, with directors not being bound to pay dividends in most cases, for example, nor being prohibited from using funds for various business development investments or even for philanthropic purposes. Some faculty argued that the corporation was created as a legal form, not to solve the principal/agent problem but rather to make it feasible and reasonable for individuals to provide permanent capital: that is, they could sell their shares but the firm was not compelled to buy them out.⁹

This line of reasoning necessarily led to teachable questions like: **How can we design incentives for directors that motivate them to take on this difficult role, to retain their independence, and to act out of their commitment to the firm more broadly, as well as their commitment to the shareholders?** For example, it was argued

⁹ Blair, Margaret M., (2003) “Locking in Capital: What Corporate Law Achieved for Business Organizers of the 19th Century,” 51 *UCLA Law Review*, 2; Blair, Margaret M. and Lynn A. Stout, (1999), “A Team Production Theory of Corporate Law,” 85 *Virginia Law Review*, 2, 247-328; Blair, Margaret M. and Lynn A. Stout, (2001), “Director Accountability and the Mediating Role of the Corporate Board,” 79 *Washington University Law Quarterly*, 2, 403-447.

that board independence is undermined when directors are compensated essentially for contingent outcomes (stock performance), rather than for advice.

In general, however, faculty seemed intrigued and even excited by the ideas shared by their legal scholar colleagues, suggesting that managers' hands are not necessarily as firmly tied as is often assumed. At times this conversation veered into an intellectual unpacking and reframing of some of the fundamental assumptions of the contractarian model of the firm. That is, some participants questioned the view that the other salient stakeholders (employees, creditors, suppliers) were actually sufficiently protected by contracts, or at least more protected than shareholders. Others pointed out that it was actually shareholders who had the option to greater diversification of their risk than employees or suppliers who were often tied to more firm-specific investments. And finally, several talked of global realities: not only do legal and institutional protections vary across nations, but some argued for more of a functional convergence of governance models than a structural one.

But each time the conversation would veer off in one of these directions, someone would bring us back to the ostensible focus of our discussions—that is, management education—by asking: But what can we responsibly teach to our students? Can we teach about these issues in a context of business practice that does not question the shareholder primacy model? Or can we afford not to?

At this point some important distinctions began to emerge in the conversation. For example, there is the difference between teaching a model as if it is unassailable fact, on the one hand, or on the other, teaching the model with its caveats and limitations laid bare. There is the difference between teaching a model in the context of all the assumed

relationships and self-imposed or legally enforced boundaries to action that presumably *allow* it to function, as opposed to teaching the model as if it operates independent of such contingencies.

As one faculty member described it, when the market logic is presented, its “*description becomes prescription.*” In the students’ minds, everything can suddenly be solved by the market, and this analytical scheme creates a hostility toward other norms, institutions and laws—the very norms, institutions and laws whose functioning the shareholder primacy system is contingent upon.

Now let me stop here for a moment to acknowledge that the questions and caveats with the shareholder primacy model that our interviewees identified are the kinds of questions that those of you who labor on questions of Business in Society have been raising for some time.¹⁰ Unfortunately, however, they have not always been raised in the core curricula of finance, economics, accounting, business law and strategy. Our agenda with this project at Aspen was to understand whether faculty in these arenas were concerned about these questions; to find out how they thought about them; and to consider whether there were ways to effectively and responsibly raise them in the classroom.

We learned that these questions were indeed compelling to our faculty interviewees and that they had a number of useful ways to frame and think about them. However, it became clear that it is very difficult to teach what we *don’t* know. It’s difficult to surrender that elegant model, even when one realizes that it is not sufficient.

¹⁰ For an illustrative and excellent exchange of views, see “The Corporate Objective Revisited” by Anant K. Sundaram and Andrew C. Inkpen and “Stakeholder Theory and ‘The Corporate Objective Revisited’” by R. Edward Freeman, Andrew C. Wicks, Bidhan Parmar, *Organization Science*, Vol. 15, No. 3, May-June 2004, pp. 350-363 and 364-369.

One faculty member noted that although we teach the shareholder primacy model, we don't believe that managers actually behave in this way because they are human beings; they can't ignore all of the trade-offs. But then several others acknowledged that faculty silence around the limitations of this model sends a powerful signal to students that either the limits do not exist or that they are unimportant.

So the challenge became: how can we teach about the limitations of the model when we do not have mechanisms to make this insight actionable? Ironically, by this time in the conversation, it had become evident that we do not have the mechanisms to make the shareholder primacy model *itself* actionable – at least not as it is supposed to function. That is, we confront challenges in measuring risk, both short term but especially long term; we have not clearly identified who our shareholders are and what their interests are; we have not resolved the issue of whether and how far firms should go in attempting to influence the laws and institutions that are intended to regulate their value maximizing behavior; and we have not developed compensation and incentive structures that reinforce the alignment between shareholders and other stakeholders, management included. And we've even questioned whether the underlying arguments supporting shareholder primacy, if it could be operationalized, are logically consistent.¹¹

So we ask, what *can* we teach? And we respond that we can teach the theory of the firm as it is intended to function, with a strong attention paid to the individual, organizational, institutional and regulatory principles that are conditions for its functioning, such that future managers can understand the importance of preserving those principles. And we can teach the limitations of this model, even with these conditions in

¹¹ "Time to take another look at Corporate governance values" by Mary O'Sullivan, South Africa *Sunday Times*, April 13, 2003, <http://www.suntimes.co.za/2003/04/13/business/companies/comp07.asp> .

place, such that future managers can work to mitigate those limitations. And we can share examples—often from other nations—of alternative models that although possessing their own limitations, also may have resolved certain functional challenges.

What does this mean in practice? It means raising the questions we have mentioned today as we teach. It means talking about the supposed alignment of interests achieved through the shareholder primacy model and noting what threatens this alignment such as: information asymmetries; imperfect contracts; externalities that are not internalized without government action to address them; and the challenge of conflicting and ill-defined investment and performance time frames. It means making sure that the subjects of externalities, of business law and of cross-national comparisons of governance models are not crowded out of the curriculum. And it means staying current with emerging examples of coalition politics and the impact of NGOs on a firm's choice constraints.

Now some may respond by saying that of course we teach about these things! And if that's so, bravo! But in our interviews we heard that these classroom discussions are not happening as often nor with the depth that we would hope. But there were suggestions offered. For example, several faculty requested that we pull together a "module" of readings and cases that will address the question: "**Just what does the law require of executives and directors, when it comes to shareholder primacy?**" Others requested a module on **incentive design for directors and for executives** that would take into account lagging performance numbers and the quality of relationships with key stakeholders. A module on **assumptions about the value of takeovers as compared with what the research data reveals** was suggested. Another idea that surfaced was to

teach about examples of the kinds of managerial choices which can greatly mitigate the negative impacts of even a difficult decision like downsizing: that is, gathering **examples of times when managerial discretion has been effectively exercised even within a shareholder primacy context**. And as has been noted above, we identified the need for teaching examples of **how firm communication with investors can increase managers' degrees of freedom for addressing stakeholder interests** (such as the AES example shared above).

In the end, it was clear that discussion of the issues identified in our project cannot wait for the development of a fully-fledged, grand alternative theory with which to replace the existing models. In fact, many of our faculty did not see the need for that. As one interviewee put it, rather than a grand new theory, what we need are more “middle range theories” to help us think about risk, bargaining power and so on.

Whether needed or not, rather than wait for a grand new theory, Aspen concludes that it is essential to recognize the limits (or as one faculty member put it, the “incompleteness”) of what we currently teach. And instead of avoiding the introduction of complexity into the classroom for fear that it will frustrate students, we embrace the mission of “education for judgment,” preparing students for the complexity that already does exist in our and their world. We, at Aspen, hope to help facilitate this education through the collection and dissemination of teaching materials around this complexity and we welcome your input into that process.

Appendix I

Interviewees

Connie Bagley, Harvard
Margaret Blair, Georgetown
Marc Epstein, Rice
Bob Gibbons, MIT
Brian Hall, Harvard
Geoff Heal, Columbia
Paul Healy, Harvard
Joe Hinsey, Harvard
Lisa Jordan, Ford Foundation
Liz Keating, Harvard
Tarun Khanna, Harvard
Rakesh Khurana, Harvard
Bill Kinney, UT Austin
David Levine, UC Berkeley
Hassell McClellan, Boston College
Robert McKersie, MIT
Maureen McNichols, Stanford
Lisa Meulbroek, Claremont
Stew Myers, MIT
Al Osborne, UCLA
Sharon Oster, Yale
Tom Piper, Harvard
John Roberts, Stanford
Cindy Schipani, Michigan
Jim Seward, Wisconsin
Scott Stern, Northwestern
Lynn Stout, UCLA
Jim Walsh, Michigan
Pete Wilson, Boston College
Bernard Yeung, NYU

Appendix II

Agenda for January 30th, 2004 Convening

“Corporate Governance Revisited: What Do We Know and What Do We Teach Future Business Leaders?”

Program:

Session 1: Shareholder value maximization and alignment of interests.

Are shareholder interests and the interests of other stakeholders (employees, consumers, creditors, community, etc.) in conflict? Are managers' interests and shareholder interests in conflict? Have current problems arisen because of insufficient attention to shareholders? Or is excessive or exclusive attention to shareholders the root of problems? When there are breakdowns in the system or limits to its effectiveness, what kinds of regulations or other mechanisms are required to protect interests?

Session 2: Shareholder interests.

While much attention is given to considering the extent to which to maximize or balance shareholder interests, the antecedent question is: What *are* the interests of shareholders today? Does it matter the extent to which they are able to diversify their risk? Does it matter if shareholders also wear the hats of other stakeholders (employees, consumers, creditors, community members, etc.)?

Session 3: Board roles and challenges.

What kinds of discretion do management and boards have? How can they exercise it effectively? How are multiple interests taken into account? What lessons do we draw from business law?

Session 4: Cross-national comparisons.

What does corporate governance look like in other national contexts? How are interests balanced? What mechanisms regulate the system? With what effects?