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International Innovation in the Classroom

Professor Franklin R. Edwards: Corporate Governance

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Students at Columbia Business School recognize that the corporate business environment, both at home and overseas, will shape the context in which they make their future business decisions. As we have seen, this environment is dynamic, changing often as a result of scandals, such as Enron, or enactment of new legislation, such as Sarbanes-Oxley. Accordingly, many students desire to understand the root of corporate problems and whether there is a better way of doing business.

Professor Frank Edwards's popular elective Corporate Governance focuses up these issues. The course covers many aspects of corporate governance, but three stand out: First, shareholder rights—just exactly what are shareholders entitled to, and how have their rights been addressed in different countries? Second, corporate ownership structures—what effect do dual class ownership, pyramidal ownership and cross-ownership structures, including those found outside the United States, have on managerial incentives? And finally, the structure and role of gatekeepers—what role should auditors, investment banks, legal firms and credit-rating agencies play, and what should be the legal and economic structure under which they operate?

The recent spate of corporate scandals that have struck both U.S. and overseas corporations—and the hope that Columbia's MBAs might avoid these embarrassing pitfalls—served as Professor Edwards's prime motivations for developing this corporate governance course. According to him, it is "essential for students to understand what their obligations are as managers and how should they conduct themselves in the business world." The course's aim is to arm students with a sensible code of conduct to adopt when doing business. "I wanted to make the course more interdisciplinary," he says, "combining aspects of law, economics, finance and management—whatever is appropriate to the problem."

Professor Edwards cites the use of legal cases as an important innovative course component. As the course progresses, students examine the written opinions from many historic legal cases in order to understand the origins and applicability of a particular legal standard to such areas as insider trading, hostile takeovers and directors' fiduciary responsibilities. However, the course is not just about unraveling corporate law. The constant classroom discussion of corporate dealings and business affairs, as reported in the media, is another innovative component. In this sense, Corporate Governance is a real-time course, always in a state of flux and constantly being updated to reflect current events.

The main innovation of the course, according to Professor Edwards, is its strategic thrust. He emphasizes that it is designed to teach good process for making real-world decisions that are in the best interests of shareholders. This approach differs from typical MBA courses. In finance or economics courses, for example, students are taught to make

an optimum, value-maximizing decision based on a black box of tools, and managerial courses focus on methods of bringing people together to implement a plan. Professor Edwards believes his course emphasizes, first, why process is important and, second, what good process is. This is its main differentiating factor.

Corporate Governance's international dimension is unavoidable. Many students in the class either are originally from outside the United States or plan to take employment with foreign corporations after graduation. Professor Edwards believes that classroom discussion is enriched by students' international experiences.

When it comes to emphasizing differences between U.S. and overseas corporate governance systems, the course spends time examining the very big differences in ownership structures. For example, the pyramidal structure present in many European firms is contrasted with the typical American structure. Furthermore, class time is devoted to several other striking differences, such as the lack of minority shareholder protection outside the US and the implications of value maximization for the stakeholder, as opposed to the shareholder, which is common in Europe.

Exposure to international corporate governance can be an enlightening experience for American students; for example, many are surprised to learn that outside the United States corporate assets are often controlled by owners with a very low equity interest who nevertheless retain voting rights. In an overseas environment, it is essential to protect both yourself and your investments!

Cultural, historic and social differences in the business environments of different countries are also discussed. Professor Edwards stresses that, both as investors and corporate actors, students need to understand how corporations operate in foreign countries and how differences affect corporate decision making.

Looking to the future, Professor Edwards plans to expand the international portion of the corporate governance course; key to this would be the development of business cases that highlight international differences with respect to legal, economic and financial matters.

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