

Center for Corporate Governance
at
The Paul Merage School of Business
University of California, Irvine

Executive Summary

The University of California, Irvine (UC Irvine) proposes to develop a Center for Corporate Governance (the “Center”) to advance both the fundamental understanding of governance issues through scholarly research and the practice of effective and principled corporate governance through programs and publications. The Center will be developed within The Paul Merage School of Business (the “Business School”) and the newly established School of Law (the “Law School”) and will be a joint project among the Business School, the Law School and the Forum for Corporate Directors (“FCD”).

UC Irvine is located in one of the most innovative business communities in the world, Orange County, California. The opportunity for the Business School and the Law School to directly influence and provide benefit to this community is unparalleled, and each school has embraced the opportunity with enthusiasm and dedication. As part of our commitment to the community, the goal of this joint initiative among the Business School, the Law School and FCD is to establish a Center that will become a leader in developing knowledge and disseminating critical information about corporate governance.

Effective and principled corporate governance plays a significant role in helping an organization’s management and board of directors to promote the best interests of the organization. The processes and mechanisms of corporate governance guide the behavior of managers and the board of directors so that they can give consideration not only to the organization’s economic objectives, but also to conduct its affairs with due appreciation of public expectations, taking into consideration relevant legal, public policy and ethical standards. The Center will be created to help advance the understanding and practice of corporate governance. The activities of the Center will serve to positively impact corporate governance by providing for research, interactive discourse and dissemination of corporate governance knowledge and practice.

The Center will advance both the fundamental understanding of corporate governance through sponsorship of scholarly research and the practice of effective and principled corporate governance through educational programs and publications. The combination of the already highly recognized Business School, the soon to be distinguished Law School and FCD provide a formidable, and possibly unique, foundation to develop a world-class Center. The Center intends to develop faculty, research and programs that are second to none.

I. Mission and Vision

Mission: The Center will advance both the fundamental understanding of corporate governance through sponsorship of scholarly research and the practice of effective and principled corporate governance through educational programs and publications.

Vision: The Center will be recognized internationally as a leading source for knowledge and education on corporate governance.

Given the success of both the Business School and UC Irvine over a relatively short period of time, as well as the excellent potential of the Law School and an exceptional partner in FCD, the vision to achieve a similar degree of success by developing a truly distinctive Center is both exciting and realistic.

II. Partners

A. UC Irvine.

UC Irvine is a world-class leader in education. Ranked among the top dozen U.S. public universities, the campus has attained a level of prestige in its brief 42 year history that has eluded many older institutions.

B. The Business School.

Named in 2004 with a very generous gift from Paul and Lilly Merage, the Business School offers four dynamic MBA programs (entering classes' number 360 students per year), a PhD program and a new undergraduate business degree. All programs are based on a thematic approach to business education: *sustainable growth through strategic innovation*.

Six Centers of Excellence and an Executive Education program provide numerous and varied opportunities for students and the business community at large to enhance their educational experience and update their professional expertise. The Business School is well known for its scholarly contributions across business disciplines. Its research productivity and quality have been ranked among the top 20 business schools in the United States by *Business Week*, 2008 and among the top 25 globally by the *Financial Times*, 2008. The Business School's strength in Information Technology, (ranked 4th, *Wall Street Journal*, 2006) and Marketing (3rd, *Business Week*, 2005) is also well established. Many of its programs including the Executive MBA (ranked 15th, U.S., *Financial Times*, 2005), Health Care Executive MBA (ranked among the top 15 by *Modern Healthcare*) and Full Time MBA (ranked among the elite top 45 in *Business Week*, 2008) are also highly regarded.

C. The Law School.

UC Irvine's new School of Law is the first new law school at a member institution of the Association of American Universities, the organization of 62 leading research universities in the United States and Canada, and at a public university in California in half a century.

From the earliest planning stages for the UC Irvine campus, a law school was envisioned as an integral part of the academic mission of the campus. A generous gift from the Donald Bren Foundation in 2007 enabled UC Irvine to bring the plans for the Law School to fruition.

The Law School will deliver an innovative and much-needed approach to legal education. Emphasis will be placed on experiential and interdisciplinary learning. The Law School has already recruited a number of top faculty members from leading law schools across the country. These new faculty members add to an already prestigious UC Irvine faculty in many related areas on the campus including law and humanities, law and society, law and business, criminology, law and psychology, law and economics, and other disciplines. Recently, University of Chicago law professor Brian Leiter remarked that UC Irvine is already a "powerhouse" in the area of intellectual property law based on its initial faculty hiring. Moreover, Professor Leiter's ranking of law schools based on "faculty scholarly impact," placed UC Irvine 10th in the country, tied with the University of Pennsylvania Law School.

The Law School received more than 2,700 applications for the founding class of 60 students. The selectivity implied by the ratio of applications to seats is the highest of any law school in the country. Based on traditional measures such as median LSAT and GPA, the quality of the incoming class is equivalent to the entry classes at the top 20 law schools in the country. The Law School will ultimately grow to 200 students per entering class, or 600 students overall.

D. FCD.

Founded in 1991, FCD is a non-profit organization that helps directors, C-level executives and others who support boards of directors set the highest standards in corporate governance. FCD provides a forum where peer-to-peer relationships develop and valuable insights are gained through world-class programs and Institutional Shareholder Services (ISS)/Risk Metrics-certified director education. FCD is committed to bringing together directors, executive officers, capital providers and those who support board in a dialogue to address today's most topical and challenging corporate governance issues.

The 360-member FCD creates a dynamic forum for director peer interactions and enhances director effectiveness through high-quality, timely ISS/Risk Metrics-certified education and development programs. In addition, FCD provides monthly education programs, customized in-boardroom education, The Director Institute, the annual Governance Outlook, a Bi-Annual Governance Practices Benchmarking Report of Orange County companies and a Governance Knowledge Center. Furthermore, FCD recognizes individuals for exemplary corporate governance at its annual Director of the Year awards ceremony, widely recognized as Orange County's most prestigious annual event for the business community.

Since 2005, the Business School and FCD have enjoyed a mutually beneficial partnership which has provided an excellent foundation for the Center. An example of this partnership is the on-going collaboration of an elective in the Business School for aspiring directors taught by a joint faculty comprised of the members of the Business School and members of FCD. The Business School and FCD have a proven working relationship and both are enthusiastic about working with the Law School on the development of the Center.

III. Activities of the Center

A. Overview and Structure

The Center's activities will include advancing fundamental knowledge on corporate governance by supporting and conducting academic research and by sponsoring interactive forums and events that convene scholars and business leaders to discuss important governance issues that will foster further scholarship. In addition, the Center will oversee the development of courses on corporate governance within the degree programs in the Business School and the Law School. The study of corporate governance will be available in courses in the MBA and JD programs as well as in undergraduate and doctoral programs in the Business School. The Center also will sponsor director training programs and timely conferences and symposia on critical aspects of governance. Through the partnership with FCD and the outreach activities in education and research, the Center will provide the nexus between the business community and the university in the development and dissemination of research and practice on corporate governance.

The Center will be led by two highly recognized faculty members who will serve as co-directors, and will include affiliated faculty and administrative support. We intend to build the faculty to deliver and support the activities by blending business school and law school faculty members, affiliated faculty members from elsewhere on the UC Irvine and other campuses, and adjunct faculty members from the business community. The Center will also develop an advisory board composed of leading senior business executives. A significant strength of the Center will be its ability to draw upon the expertise of individuals associated with the Forum for Corporate Directors and other successful leaders in the community who will be actively engaged in the strategy and activities of the Center as members of the Advisory Board.

B. Research Areas and Activities

The Center will support and disseminate research that contributes to the fundamental base of knowledge in the area of corporate governance through a variety of activities. A significant component of the Center's strategy will be to convene interactive forums and conferences that bring together recognized academic scholars and leading executives to discuss current governance issues and academic research. In addition, the Center will sponsor visiting faculty and a speaker series to advance and share scholarly research and knowledge on important corporate governance topics to the academic and business communities.

Research on corporate governance has evolved significantly over the past 25 years. Historically, most governance research was focused narrowly on concerns over financial transparency and the functioning of financial markets to ensure that managers served in the "best interests" of the corporation. The duty of the U.S. Securities and Exchange Commission (the "SEC") is to "protect investors" and most governance research examined the role of a rather small set of governance variables in influencing managers to behave in the "best interests" of the corporation. With an ever-growing list of accounting scandals and increasing concerns over managerial decisions that conflicted with the "best interests" of the corporation, research on corporate governance has expanded greatly. Today, corporate governance is a multi-faceted and complex construct that include the role of both external and internal control mechanisms as factors that provide monitoring and oversight of a company's management and board.

As our conceptualization of corporate governance has broadened, so has the scope of the research. Today, many of the issues of prime research interest examine not only the role of the financial markets on governance, but also address a company's corporate governance structure in terms of managerial power as well as board structure, composition and interlocks. In addition, the role of external monitors has been expanded to include the distribution and ownership structure of the company's stock and the role of financial intermediaries. Governance research has examined what determines the level and nature of CEO compensation, backdating of stock option pay and financial restatements. Research has shown that companies with weak governance structure have been linked to higher levels of financial restatements and stock option backdating as well as higher levels of executive compensation and lower financial performance. Finally, while most research has focused on U.S. companies since U.S. financial markets dominate the global capital market, increasingly, research also has begun to address corporate governance internationally.

The objective of the Center will be to further promote and develop governance research by sponsoring and supporting academic research as well as fostering debate about corporate governance through interactive forums of governance scholars, regulators, CEOs, directors and professionals from the business and legal communities. In addition, the Center will sponsor prominent faculty to visit UC Irvine to share their expertise with the academic and business communities. Finally, the Center will organize events whereby speakers are invited to speak on governance topical and challenging topics of interest in the business and academic communities.

C. Programs and Other Activities

An important part of the Center's mission will be to provide educational programming on effective and principled corporate governance practice. The intent is to connect the research of the Center to practice, in part, through these programs. Currently, the Business School and FCD partner on several programs for both MBA students and executives in the community. Initial activity began in 2005 with a Governance Series for Executive MBA students and Health Care Executive MBA students, designed by FCD. This 20 hour program, taught by FCD governance practitioners, was well attended and well-received, and the Business School converted the program to an elective within the MBA curriculum in 2007. The program is featured in the Business School's materials and on its website and is a significant differentiator for its executive MBA programs.

In addition, in each of the last two years, the Business School has partnered with FCD to conduct an annual joint conference for new and aspiring directors. The partnership between the two organizations also includes student mentoring, mutual event promotion, mutual opportunities through the student career center and invitations to students to attend FCD events and interact with FCD members.

The Center will oversee the incorporation of corporate governance concepts and themes in both the Business School and the Law School curriculums, available within courses in the MBA and JD programs as well as in undergraduate and doctoral programs. Additional funding available through the Center will provide numerous opportunities for the Business School to expand its current offerings to a more detailed and focused portfolio of programs on leadership, including topics such as ethics, corporate governance and social responsibility, including the interaction between the CEO and the Board of Directors.

The Center also will sponsor director training programs and timely conferences on critical aspects of governance. Programs will include the skills necessary to serve on a board and lead companies with effective, principled corporate governance practices. Some of these key competencies include mission, vision and values, the ability to evaluate board and senior management, strategic thinking, financial literacy including monitoring and managing of financial results and cash flow analysis, political perspective, personal integrity and the ability to build relationships with different constituencies.

The Center will consider offering professional certification for directors who have satisfactorily completed appropriate programs. Other activities may include the establishment of board internships and mentorships as well as academic fellowships.

In its programming, the Center will embrace the notion that “one size does not fit all.” One of the legacies of this era of corporate scandal and oversight failure is a heightened awareness of corporate governance issues. This development is most obvious for publicly traded companies in the United States, with governance requirements embodied in the Sarbanes-Oxley Act of 2002. The same heightened governance awareness also has had an effect on other companies and organizations which are not public. For example, larger private companies (or other entities such as joint ventures, LLCs), private companies preparing to become public or sophisticated non-profit organizations seeking transparency in their organization, seek to establish corporate governance structures. Many other types of business organizations also are impacted by an increase in governance requirements. These include capital providers such as venture funds, private equity firms and hedge funds. The Center will focus on the diverse needs of all these constituencies.