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- **Title:** Executive Compensation at Nabors Industries: Too Much, Too Little, or Just Right?
Case Number: CG-05 **Publication Year:** 2007 **Author(s):** David F. Larcker; Brian Tayan

Abstract: Eugene Isenberg, CEO of Nabors Industries, was listed in a 2006 Wall Street Journal article as one of the highest paid executives in the U.S. over the previous 14 years. He received this compensation as a result of a unique bonus arrangement and large stock option grants with several favorable features. At the same time, the strategy that he implemented for Nabors led to a remarkable financial turnaround as the company emerged from bankruptcy and expanded to become a global leader in the oilfield services industry. Readers of the case are asked to evaluate the structure of Isenberg's compensation agreement with Nabors Industries in light of the company's industry, strategy, and financial position. Particular consideration is paid to the total compensation, mix of compensation, performance measures, and other compensation terms.

- **Title:** Sovereign Bancorp and Relational Investors: The Role of the Activist Hedge Fund
Case Number: CG-06 **Publication Year:** 2007 **Author(s):** David F. Larcker; Brian Tayan

Abstract: In 2005, Relational Investors, a registered investment advisor, launched a proxy contest to gain two seats on the board of directors of Sovereign Bancorp. Relational accused Sovereign of operational mismanagement and poor corporate governance, representing a breach in fiduciary responsibility by the company's board of directors. Relational claimed that a board reconstitution was in the best interest of investors. Subsequently, Sovereign entered into a controversial three-way deal with Banco Santander Central Hispano of Spain, which thwarted Relational's efforts by diluting its ownership position and by giving Santander board seats and veto power over the removal of Sovereign's CEO. The case discusses the tactics used by Relational Investors to attempt to derail the Santander deal and the tactics used by Sovereign Bancorp to defend it.

- **Title:** There's a New Sheriff in Town: Institutional Shareholder Services
Case Number: CG-07 **Publication Year:** 2007 **Author(s):** David F. Larcker; Brian Tayan

Abstract: In 2007, Institutional Shareholder Services (ISS) was the largest proxy advisory company in the world, with over 1,700 institutional clients managing an estimated \$25 trillion in equity securities. The ISS proxy advisory services were intended to give shareholders greater influence over the management and oversight of the companies they invested in. Over time, ISS increasingly found itself in a central position as an authoritative voice in the debate over shareholder rights. The position was a lucrative one for the company. Critics, however, wondered whether ISS's positions on important issues were the correct positions and whether it was beneficial to have one organization hold such influence over closely contested proxy contests.

- **Title:** Corporate Governance Ratings: Got the grade... What was the test?
Case Number: CG-08 **Publication Year:** 2007 **Author(s):** David F. Larcker; Brian Tayan

Abstract: In 2007, there were three prominent corporate governance ratings firms—The Corporate Library (TCL), Governance Metrics International (GMI), and Institutional Shareholder Services (ISS). These firms assessed the effectiveness and deficiency of the governance systems of thousands of publicly traded companies. Although members of the investing public agreed that sound policies were important to protect the interest of shareholders from potentially self-interested managers, there were many questions around the usefulness of published governance ratings themselves. Questions ranged from whether a system of governance could be adequately summarized in a single, numerical score to what a high or low rating was supposed to indicate. Furthermore, allegations that ISS engaged in a conflict of interest by selling consulting services to companies on how to improve their ratings led some to question the objectivity of the ratings process.

- **Title:** Shareholder Democracy: Does Gretchen Get It Right?
Case Number: CG-09 **Publication Year:** 2007 **Author(s):** David F. Larcker; Brian Tayan

Abstract: By 2007, Gretchen Morgenson, assistant editor and columnist at The New York Times, had gained significant attention from business leaders, regulators, and academics for her coverage of a wide range of financial and governance issues. Morgenson wrote the majority of her articles about corporate malfeasance at the executive and board level, drawing attention to both prominent and lesser-known examples of misbehavior in corporate America. Not everyone, however, agreed with her depiction of and analytical approach to covering governance issues. Critics charged that, although many of the trends she pointed to were worthy of debate, her articles did not appropriately take a comprehensive view or acknowledge the broad implications of her positions. To some extent, Morgenson's critics were as aggressive in their rebuttal as she was in her assertions. Outside observers were left to wonder whether the polemics employed by both parties helped to further a broad public understanding of the issues under debate or whether they instead fueled the rancor, leaving both sides impossibly divided over the role of shareholders and directors in corporate governance.

- **Title:** 10b5-1 Plans: Mortgaging a Defense Against Insider Trading
Case Number: CG-10 **Publication Year:** 2007 **Author(s):** David F. Larcker; Brian Tayan

Abstract: In 2006, David Zucker, chief executive officer of Midway Games, came under fire for selling a significant amount of Midway stock just weeks before a precipitous decline in the company's share price. One year later, Angelo Mozilo, chairman and chief executive officer of Countrywide Financial, also increased the pace of his stock sales in the months before troubles in the U.S. mortgage lending market led to a similar drop off in Countrywide's share price. Both executives placed their trades through prearranged programs known as 10b5-1 plans. 10b5-1 plans, named after the Securities and Exchange Commission rule which led to their creation, provided a systematic method for corporate executives who were routinely in the possession of material nonpublic information to engage in the sale of company stock. When implemented appropriately, 10b5-1 plans provided a safe haven that shielded these individuals from liability under insider trading laws by demonstrating that certain safeguard conditions were in place at the time the trades were executed. However, the circumstances under which

both executives carried out their programs led to an outcry from shareholders that the programs were being abused. Regulators and shareholders were left to decide whether the two men executed their 10b5-1 plans in good faith as required or whether their actions amounted to a sophisticated form of illegal insider trading.

- **Title:** Models of Corporate Governance: Who's the Fairest of Them All? **Case Number:** CG-11 **Publication Year:** 2008 **Author(s):** David F. Larcker; Brian Tayan

In 2007, corporate governance became a well-discussed topic in the business press. Newspapers produced detailed accounts of corporate fraud, accounting scandals, excessive compensation, and other perceived organizational failures—many of which culminated in lawsuits, resignations, and bankruptcy. Central to these stories was the assumption that somehow corporate governance was to blame. That is, there was a functional failure in the system of checks and balances established to prevent abuse by executives.

This case explores the various corporate governance systems that have been adopted in the United States and in various countries in Europe and Asia. The issues of control, director independence, auditor independence, dual-board versus unitary-board structure, comply-or-explain, and legislative versus market-driven solutions are explored. Readers are asked to evaluate what governance systems or elements they consider to be most effective. Plentiful examples—including Johnson & Johnson, BMW Group, Michelin, Heineken, Toyota, Samsung, Posco, PetroChina, Infosys, and many others—are used throughout as illustration.

- **Title:** Say on Pay...Does the Buck Stop Here? **Case Number:** CG-12 **Publication Year:** 2008 **Author(s):** David F. Larcker; Brian Tayan

By 2007, executive compensation at U.S. companies had become an extremely contentious topic. Reports in the press of multi-million dollar pay packages—in the form of stock option exercises, severance packages, and retirement payouts—led to an outcry among many investors that compensation levels had gotten out of hand. Negative sentiments were highest against CEOs who received large severance payments despite the fact that the price of the company's stock had decreased substantially during their tenure. Corporate governance watchdogs dubbed such situations "pay for failure."

Critics of executive compensation levels advocated a series of actions to rein in pay. These included increased disclosure about previously obscure contract provisions for severance and retirement packages, urging shareholders to withhold votes from directors who approved excessive pay amounts, and the requirement that executive compensation packages be put before shareholders each year for an advisory vote. This last proposal, commonly referred to as "say on pay," would give shareholders a direct voice (using the proxy voting procedures) for the first time on CEO compensation. Advocates of say on pay believed that the practice would put pressure on directors to justify proposed compensation amounts rather than rubber stamp pay packages proposed by boards and consultants. They also believed it would improve dialogue between shareholders and directors. Critics charged that the say-on-pay movement was politically motivated by activist investors and public pension funds who were trying to gain influence over matters that should be decided by elected board members. Average shareholders were left to consider what effects, if any, say on pay would have on compensation

trends and whether it offered an innovative corporate control or an unnecessary distraction for CEOs and board members.

- **Title:** Attention Shoppers: Executive Compensation at Kroger, Safeway, Costco and Whole Foods **Case Number:** CG-13 **Publication Year:** 2008 **Author(s):** David F. Larcker; Brian Tayan

Retail grocery sales represent a significant portion of the U.S. economy. The industry was highly competitive, with companies operating on low gross and net margins. As a result, grocery stores were generally under significant pressure to reduce their operating costs in order to maintain profitability. For the last several decades, the grocery industry grew roughly in line with gross domestic product and was considered a mature industry. In order for companies to succeed, they needed to find effective strategies to steal customers from competitors. Many sought to differentiate themselves through store format, store location, product mix, ancillary services, or quality of customer service. Strategies, however, could easily be imitated by competitors, putting grocery store chains under constant pressure to innovate and remain efficient. In general, growth also required the expansion into new store locations. Companies that failed to grow often went bankrupt or were acquired.

This case explores executive compensation at four retail grocery stores: Safeway, Kroger, Costco, and Whole Foods. Consideration is given to each company's strategy and market position and corporate governance structure. Readers of the case are asked to evaluate in a critical manner the appropriateness of each company's compensation strategy and compensation levels, given company performance.

- **Title:** Executive Compensation: Moving from Utility Services to Power Trading at Aquila ; **Case Number:** CG-14 **Publication Year:** 2008 **Author(s):** David F. Larcker; Brian Tayan

In the late 1990s, UtiliCorp United, a utility that owned natural gas and power assets in the Midwest and internationally, moved aggressively into the business of wholesale energy trading. The move came after Congress passed legislation that opened wholesale energy markets to competition, with the expectation that competition would reduce prices. Following the legislation, trading activity in these markets exploded, a trend which UtiliCorp participated in through its energy trading subsidiary Aquila Merchant Energy.

In recognition of the important role that energy trading was expected to play for the company going forward, UtiliCorp officially changed its name to Aquila in March 2002. At the same time, the board of directors awarded a discretionary bonus of \$4.5 million to Chief Executive Officer Robert Green, "in recognition of his contribution in establishing and cultivating the merchant services business." He had been on the job just three months, having succeeded his older brother Richard Green Jr. who remained chairman. Just months later, however, energy markets collapsed and the company reported major losses. As a result, Aquila announced that it would close its energy trading division and that Robert Green would resign as CEO. He would retain his bonus and also take with him a substantial and controversial severance package. This case explores the appropriateness of these payments, given the change in the company's strategic model and performance.

- **Title:** The Management of Berkshire Hathaway; **Case Number:** CG-16 **Publication Year:** 2009 **Author(s):** David F. Larcker; Brian Tayan

Berkshire Hathaway is known to many as the investment vehicle of Warren E. Buffett. To some extent, this reputation is well founded, given the investment success that the company has enjoyed under his leadership. Less attention, however, has been paid to the management success of Berkshire Hathaway.

By 2008, the array of companies that Berkshire Hathaway owned was unique in its diversity. Even more unique was the operating structure that the company employed to manage these operations. It was a model based on extreme decentralization of operating authority, with responsibility for business performance placed entirely in the hands of local managers. While many public corporations implemented strict controls and oversight mechanisms to ensure management performance and regulatory compliance, Berkshire Hathaway moved in the opposite direction. Many of the company's operating principles were in stark contrast to those generally employed by most public corporations. Company shareholders would have to decide for themselves whether these operating principles posed a risk to long-term performance or whether, contrary to expert opinion, they were a source of competitive advantage that could be sustained in the future.

- **Title:** Selecting a CEO: The Leader, the Business Builder, or the Technologist
Case Number: CG-15 **Publication Year:** 2008 **Author(s):** David F. Larcker; Brian Tayan

In 2003, the board of directors of GDF decided to initiate a thorough search process to replace its existing CEO. GDF Corp was a leader in the telecommunications industry, offering network equipment and enterprise solutions to a broad range of customers around the world. The company's business came under pressure during the technology bust of 2001 and 2002. An interim CEO was brought in to stabilize the company, but by 2003 the board realized that it needed a new CEO to bring the business up to the level of performance that the board and shareholders expected. This case describes in detail the external search process used by GDF. It also describes in detail the three finalists for the position. Readers of the case are asked to decide who they would select as GDF's new CEO. They are also asked to structure the executive's compensation.

- **Title:** Royal Dutch/Shell: A Shell Game With Oil Reserves (A)
Case Number: CG-17A **Publication Year:** 2009 **Author(s):** David F. Larcker, Robert Lawson, Brian Tayan

In January 2004, the Royal Dutch/Shell Group of Companies announced that it would reduce its estimate of proved oil reserves by nearly 4 billion barrels, or 20 percent. The announcement set off a series of events, including a drop in the company's share price, internal and external investigations, and the resignation of several senior officers. During this period, details came to light about the sometimes bitter disputes among company officials over its reserve practices. Company officials had to decide what changes to make to restore public confidence in the organization.

- **Title:** Royal Dutch/Shell:A Shell Game With Oil Reserves—Governance Overhaul After Scandal (B); **Case Number:** CG-17B **Publication Year:** 2009 **Author(s):** David F. Larcker, Robert Lawson, Brian Tayan

Following the revelation that the Royal Dutch/Shell Group of Companies had overstated its proved oil reserves by over 4 billion barrels, company officials announced dramatic changes to the company's organizational structure and governance system. These changes were intended to improve management oversight and long-term corporate performance. This case outlines those changes.