

Thomas H. Stanton
(202) 965-2200
tstan77346@gmail.com

**Governance, Risk Management, and Decision Making:
Lessons for Public and Private Organizations
470.613.51**

“I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders and the equity in the firms” – Alan Greenspan, 2008

Frequent news accounts reveal one company after another -- Target’s credit card breach, Takata’s dangerous auto airbags, and the General Motors failure to report a deadly ignition system -- that suffered serious loss, and subjected its customers to serious loss or sometimes even death, after ignoring warning signs that might have prevented or at least mitigated the harm. Government agencies also may ignore warnings that cause serious taxpayer losses and reputational damage. And too many schools and other organizations have failed to carry out their fundamental responsibility to protect women against personal violence.

Widespread harm in recent years has come from the US financial crisis. About 10 million homeowners will lose their homes to foreclosure. Median household wealth fell from an average of \$125,000 in 2007 to \$ 96,000 in 2009. Real median income fell to \$49,445 in 2010, the lowest number since 1997, and the poverty rate rose to its highest level since 1993. It is much harder for graduating students to find appropriate work than it was before 2008. Much of this damage might have been avoided, or at least mitigated by better governance, risk management, and better management generally in both the public and private sectors.

This course seeks to present learnings about governance and management that are potentially relevant to government, private sector, and nonprofit managers and organizations: The basic lesson is that risk management is an essential part of good management more generally. Managers must take the possibility of risks, vulnerabilities, and serious potential harm into account even when times are good; that’s one factor that distinguishes successful organizations from the rest. The federal government and private sector have learned this not only from the financial crisis, but also from Katrina, the massive 2010 Gulf oil spill, and homeland security events such as September 11. All of these occurred within a single decade.

Students will be expected to produce a research paper on an approved topic relating to (1) a crosscutting theme of governance, risk management, and decision making at one or more private companies, nonprofits, or government agencies, or (2) government regulation and supervision of risk management at one or more private companies. Students will be encouraged to make the course an interactive one and to share their personal knowledge of successes and failures of governance, risk management, and decision making.

This course does not require knowledge of finance; we will discuss issues of governance, management, and decisionmaking that apply to all types of organization, whether in the public, private, or nonprofit sectors.

This course will be taught in the fall semester on Tuesday evenings, from 5:45 pm to 8 pm. The first class meets on September 8, 2015; the last class is scheduled for December 8, 2014. Students will present their preliminary research findings starting in early November; **final papers will be due on the last day of class.**

Readings for the course will be taken from, Thomas H. Stanton, *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (Oxford University Press, 2012); Thomas H. Stanton and Douglas W. Webster, *Managing Risk and Performance: A Guide for Government Decision Makers* (John Wiley & Sons, 2014); and Sydney Finkelstein, et al., *Think Again: Why Good Leaders Make Bad Decisions and How to Keep it From Happening to You* (Harvard Business Press, 2008), plus readings that will be distributed in class or by e-mail.

Students who have taken the Proseminar: Essentials of Public and Private Management, already will have read Thomas H. Stanton, *How Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* and now should read Jim Collins, *How the Mighty Fall: and Why Some Companies Never Give In*, (HarperCollins, 2009) for this course.

“The strength of the university depends on academic and personal integrity. In this course, you must be honest and truthful. Ethical violations include cheating on exams, plagiarism, reuse of assignments, improper use of the Internet and electronic devices, unauthorized collaboration, alteration of graded assignments, forgery and falsification, lying, facilitating academic dishonesty, and unfair competition. Report any violations you witness to the instructor.”

“The Johns Hopkins University is committed to providing reasonable and appropriate accommodations to students with disabilities.”

Schedule of Topics

Introduction and Overview of the Course

September 8

Introduction: Overview of the course and its concepts; Introduction to governance, risk management, decisionmaking, and success or failure of companies and federal agencies under stress. Introduction to the course paper; Discussion of topics that the course should cover to meet student needs and interests; Overview of current issues affecting governance, risk management, and decisionmaking, at private companies and government agencies.

September 15

The financial crisis: a crisis of private and public institutions

Readings for September 15: Stanton, *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis*, chapter 1; Stanton and Webster, *Managing Risk and Performance*, chapter 12. OPTIONAL: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 2.

Governance and Risk Management

September 22

How companies govern themselves: The board of directors, CEO, top management, employees and other stakeholders; governance of government agencies

Readings for September 22: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 4; Stanton and Webster, *Managing Risk and Performance*, chapters 1 and 4.

September 29

Risk management: Why it's important; state of the art; risk management as an integral part of management

Readings for September 29: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 5; Stanton and Webster, *Managing Risk and Performance*, chapters 2 and 3.

October 6

Organizational vulnerabilities: problems of culture, business model, and complacency

Readings for October 6: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 6; Stanton, “Life Cycle of the Government-Sponsored Enterprise,” 2007; Valukas, *Report to Board of Directors of General Motors Company*, 2014, pp. 248-258; Pogrebin, “Arts Institutions,” 2012; DiPietro, “Data Breaches Expose Corporate Communication Breakdowns,” 2014.

October 13

Managing Risk in Government Agencies: Case Studies

Readings for October 13: Stanton and Webster, *Managing Risk and Performance*, chapters 7, 8, and 10; Columbia Accident Investigation Board, *Final Report*, chapter 8, 2003; Fears, “Contaminated Water at the Nation’s Largest Marine Base,” 2012; Rubin, “Chain of Avoidable Errors Cited in Koran Burning.”

October 20

Companies that Succeed and Companies that Fail: The Financial Crisis

Readings for October 20: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 3; Tully, “Jamie Dimon’s SWAT Team,” *Fortune* 2008; Fannie Mae, 2005 Strategic Plan, “Coping with the Crisis”; Bear Stearns, “Management Committee: Risk Governance Diagnostic; Recommendations and Case for Economic Capital Development,” February 5, 2008.

October 27

Companies that Succeed and Companies that Fail: Nonfinancial Companies

Readings for October 27: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 10; SKIM SEVERAL OF THE FOLLOWING: *BP Texas City Report*, 2007, Executive Summary; *Deep Water: The Gulf Oil Disaster and the Future of Offshore Drilling*, January 2011, Chapter Eight; *Upper Big Branch: The April 5, 2010, Explosion*, 2011, part IV; The Joint Commission. “Behaviors that Undermine a Culture of Safety,” 2008; Brown, “Physician, Heel Thyself,” 2011.

Reading for the Next Four Weeks: Sydney Finkelstein, et al., *Think Again: Why Good Leaders Make Bad Decisions and How to Keep it From Happening to You*

Student Papers

November 3 and November 10

Student presentations and discussion of research papers. About five or six presentations will be discussed at each class session.

Readings: Copies of student papers will be distributed the week before they are discussed.

Enterprise Risk Management: Improving Decisionmaking

November 17

Enterprise Risk Management: Improving Decisionmaking by Public and Private Organizations

Readings for November 17: Stanton and Webster, *Managing Risk and Performance*, chapters 6 and 9.

The Role of Government: Help Prevent Disaster?

November 24

The role of government: help prevent disaster? The problem of regulatory capture.

Readings for November 24: Stanton, *Why Some Firms Thrive While Others Fail*, chapters 7 and 8; Roe "The Inevitable Instability of American Corporate Governance"; Kaufmann, "Preventing Nuclear Meltdown," 2011; Stanton, "Bank Supervision, 2014."

December 1

The first lines of defense: good management and organizational culture; “Feedback is a gift.”

Readings for December 1: Stanton, *Why Some Firms Thrive While Others Fail*, chapter 9; Collins and Hansen, “Leading Above the Death Line,” chapter 5 in *Great by Choice*; Sonnenfeld, “What Makes Boards Great,” 2004; .

December 8

When risk management fails: managing a crisis

Readings for December 8: Stanton, “Creating a Financial System Safety Board,” 2009; Stanton, “The Importance of Legitimacy in the Government’s Response to the Financial Crisis”; Linden, “Sexual Assault at UVA: 4 Lessons in Crisis Leadership.”

**Governance, Risk Management, and Decision Making:
Lessons for Public and Private Organizations**

470.613. 51

Sample Themes for Student Papers

Fall 2015

This is a course on governance, risk management, and decisionmaking, as they relate to the public, private, and nonprofit sectors. It will cover three major topics: (1) governance, risk management, and decisionmaking at successful vs. unsuccessful firms, nonprofits, or government agencies, (2) the role of government in monitoring, preventing, and responding to major disasters, and (3) ways to improve decisionmaking through improved governance and risk management.

You will be expected to produce a research paper on an approved subject relating to (1) a crosscutting theme of governance, risk management, and decisionmaking at one or more private companies, nonprofits, or government agencies, or (2) government regulation and supervision of management and decisionmaking at one or more private companies.

Interesting themes for papers might include:

- *A comparison of governance and risk management at two sets of firms or government agencies, contrasting one with best practices and the other with demonstrable shortcomings.*
- *The problem of regulatory capture in a particular economic sector and potential solutions.*
- *Implications for governance and risk management of Alan Greenspan's comment, that "that "I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders and the equity in the firms" (House Committee on Oversight and Government Reform, 2008).*

- *Review of one or more organizations that upgraded governance and risk management; lessons about implementation.*
- *Factors affecting the capacity of a regulator to supervise private companies effectively; why did/didn't the Congress (or legislature) give the agency the tools and resources it needed?*
- *Does crisis pay? Review of incentives that government response to crisis creates for companies in particular industries.*
- *Dealing with potential "Black Swan" events: costs and benefits of increased cyber security for companies and the nation.*
- *Organizational issues affecting capacity of the Federal Reserve System to supervise systemic risk and the constituencies involved.*
- *Effectiveness of federal, state, and local regulation, and self-regulation in assuring the performance of the national electric power grid against a cyberattack.*
- *Culture change: how can schools, the military, and other organizations better protect women against physical violence?*

Incentives matter: Your paper should display understanding of determinants of the behavior that private firms, nonprofits or government agencies or policymakers display.

Some of these sample topics are quite broad; it will be important to focus them so that the topic can be addressed in useful depth. For example, approaches that are useful in one economic sector may be inappropriate in another. That means that, depending on the topic, students should select a limited range of firms or regulators that they examine in their papers.

These are merely examples; it is important to find a topic of special interest to you personally. The point of the paper is to permit you (1) to understand how the particular pieces fit together and (2) to integrate your understanding of the relevant institutional capabilities and incentives of different types of actors with the practical results found in

the nature of governance, risk management, and decisionmaking in one or more organizations.

**Managing Risk and Performance and Making Sound Decisions:
Lessons for Public and Private Organizations
470.613.51**

Student:

Paper Topic:

CRITERION	EVALUATION
Well Focused Research Topic	
Quality of Institutional Analysis	
Identification of Relevant Issues	
Distinction Between Apparent Perceptions and Operational Reality	
Depth of Analysis of Operational and Structural Issues	
Quality of Research Sources	

NOTE: Students also will be graded on the quality of class participation: _____

Instructor Comments:

Grade for the Course: _____

Thomas H. Stanton
Fall 2015