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Spotlight: In the Boardroom

Close-up: Lori Ryan

CGI director aims to teach effective corporate governance, but warns there's no magic bullet

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If only every corporation had a formula for guaranteed success. An E = MC squared, for business, perhaps.

For those at the Corporate Governance Institute (CGI) at the San Diego State University College of Business, it's a constant search for the successful method of doing business — from board member behavior to the range of power for CEOs and shareholders.

Director of CGI Lori Ryan believes there is no universal blueprint — unfortunate for shareholders, who would like to see a formulaic, "x" number of board members equals success, especially if the CEO has an annual salary of "y" dollars.

Really, when you're investing, who wouldn't?

Instead, the institute researches best business practices from around the globe and encourages ethics. Since 1998, the vision has been to "become known as the dominant center for the study and application of responsible corporate governance principles worldwide."

"For one thing, we believe in business, and we want business to be successful and ethical," Ryan said. "If there are ways we can highlight shortcomings and challenges that may make it easier, we will."

CGI started with three purposes — research, training and to establish academic programs that teach corporate governance, said original institute director Craig Dunn, now an associate professor at Western Washington University.

Corporate governance is taught in SDSU's MBA program, and is spreading into other departments in the College of Business, Ryan said.

The institute has chosen to focus on research and teaching students. As for educating those in the corporate world — the institute has teamed up with Model Governance, at modelgovernance.com, to further that aspect of the mission.

"We weren't having a lot of success at SDSU in training a lot of directors in the community, so it made sense to outsource," Dunn said.

The institute is also participating in the Corporate Director's Forum this weekend. Four SDSU professors are participating in a bonus session of the conference and will focus on "Recent Research in Corporate Governance."

As CGI studies hot topics in the industry, it brings a new perspective to corporate issues. The research varies in nature and topic, but usually involves studying corporations, developing ideas through market reports or developing theories.

Photo: J. Kat Woronowicz

"We believe in business, and we want business to be successful and ethical," says Lori Ryan, director of the Corporate Governance Institute at SDSU's College of Business.

A lot of the research is conceptual, as it's hard to get into a corporation for analysis — or get boards of directors to participate as test subjects, Dunn said.

One constant issue is the balance of power between CEOs, boards and shareholders.

"If you look at it over the 20th century, in that triad, different groups have had more power than the other groups," Ryan said of the continual evolution.

Shareholders are currently rising in power, pushing for voting power on board members. Because the New York Stock Exchange listing rules require the nominating committee of a board of directors to be from the outside of the company, CEOs no longer have as much nominating power as they used to.

"Before it became a listing requirement, the CEO could be in on nominating the directors, and the directors are the ones managing the CEO," Ryan said.

How much a CEO should earn is always a hot topic, especially since CEO pay was made public in the 1990s.

"Suddenly all the CEOs were looking at each other, saying how come I get $2 million and he gets $3 million?" Ryan said. "It just keeps ratcheting it up because it's so visible."

It's a struggle of company status — large companies believe their CEOs should make more than smaller companies' chiefs — and responsibility.

"If the profits are going up, then they think the CEO should make a lot of money. If the profits are going down, then they think the CEO should make less money," Ryan said, noting that she believes it's more of a symbolic gesture.

Outside the United States, CEOs are paid less, and there could be a turning point for CEO salaries in the United States because of it, Ryan said. If pay doesn't change, the country will begin absorbing the world's CEO talent — which will probably raise salaries outside the country and bring U.S. pay down a bit to compete less, Ryan said.

That issue of a perfect blueprint for investors comes up with CEO duality, when the CEO serves as the chairman of the boards of directors.

"A lot of investors say, 'Oh, that's a bad thing,'" Ryan said. "But what they're not realizing is for some companies, that's a good thing."

But that doesn't halt many investor's hope that some tidbit of research will lead to the corporate governance magic bullet, say having 8.2 directors on a board and paying the CEO $45 million. The institute will continue to investigate corporate practices around the globe — fostering relationships with academics abroad to write articles and pursue theories.

"Really, corporate governance has to fit the individual firm. By looking for things that go across 100 companies, they're really kind of fooling themselves, per se," Ryan said of the pursuit.

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