

UNIVERSITY OF PENNSYLVANIA
THE WHARTON SCHOOL
DEPARTMENT OF LEGAL STUDIES & BUSINESS ETHICS
LGST 612 Section 004
Spring 2015
Responsibility in Business

SYLLABUS

Classroom: Room 365 JMHH
Office: 619 Huntsman Hall
Class times: Tuesdays, 3:00-6:00 PM
Office Hours: by appointment
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Instructors: Professors Paul Roth and Larry Zicklin:

Paul Roth (paul.roth@srz.com) is one of the founding partners in the law firm of Schulte Roth & Zabel LLP. where he advises public and private companies in the financial services business. He also has extensive experience in private investment funds, hedge funds, private equity funds, offshore funds, investment advisers and broker-dealers.

Larry Zicklin (lzicklin@nb.com) is a Clinical Professor of Finance at the Stern School at NYU and retired CEO and Chairman of Neuberger Berman where he is currently a Director and Chairman of the Audit Committee.

COURSE OBJECTIVES

The purpose of this course is to introduce students to a broad range of ethical issues that professional managers face with increasing frequency. Together, we will explore concepts and methods designed to make you a more effective and honorable professional. Your time in this course will be well invested if you learn about the types of traps that lure seemingly honorable business professionals into ethical lapses and criminal behaviors that can ruin careers, destroy companies, and bring shame to families, associates, and the business community. Our time will be designed to help the student develop a set of analytical perspectives for making judgments when such issues inevitably occur, and permit them to navigate ethical grey zones with more confidence and better results.

Your instructors will attempt to familiarize you with the basic principles that allow companies or teams to be more effective and less prone to ethical lapses. When ethical lapses do occur, it is further proof that in the business world not every decision can be modeled or reduced to a mathematical equation. Judgment, therefore, becomes the key factor that separates those executives who attain great success from those whose careers

never quite reach their potential. To sharpen the student's judgment, we will examine the role of ethical norms and reasoning in resolving the "non-market" issues in managerial life, and in establishing standards of professional responsibility. This will require a study of writings in the fields of ethical reasoning, professional responsibility, and the law. As part of the experience, students in this course will exercise professional judgment through discussion and analysis of cases that will be a **major** part of each class.

In our particular section we will spend a little more time on the FINANCIAL SERVICES industry, as this is where we have spent much of our respective careers. It's also the place where so many shameful and unethical events have taken place over the past years. As you might imagine, there will be some time spent discussing the recent economic crisis as well as analyzing some relevant readings and/or cases that emanated from it. While we intend to have you read some of the seminal readings in the field; much of the course will come directly from current events that touch on contemporary business ethics. If history repeats itself, some of those events will involve lapses in professional responsibility that will occur after the syllabus has been prepared or perhaps during our semester together. We will then adjust our syllabus and discuss those events that seem most pertinent in the light of our quest for improved professional responsibility. We hope you will share in the adventure of having contemporary business events as part of your ethics education.

As indicated above, our semester will be centered on one of the most difficult of business subjects: that is the matter of exercising good ethical judgments during difficult periods. When those times occur, you will lack complete information and the ticking clock will add to your pressures. You will feel isolated and fearful of the consequences of what you're about to do. And that's where judgment comes into play. No matter how many tools you acquire, the application of good judgment will make all the difference in your career. During these weeks we spend together, we will attempt to sensitize you to the seductions that money, ambition and ego create. We will emphasize the "slippery slope" and how it often overrides good judgment. If you doubt it, consider the following comment from Joseph Berardino, former CEO of Andersen Worldwide, which was then one of the "big five" accounting firms. After the firm failed, Berardino said: "I paid the price, I lost my job. I lost my firm. I've got less money today than I had as the newly elected CEO. I lost my partner capital. I lost my retirement. I don't have any stock options. I may never work again."

In short, we are into serious subjects that poorly handled, can cost you a career and, as some highly placed executives have recently learned, your freedom.

PREPARATION FOR CLASS

The student's primary obligation in this course is to prepare for class discussion by a thorough reading and analysis of assigned materials. (All of which can be found on Study.net or the web address noted in the individual lecture.) There will be many individual readings but they will normally be only a few pages in length and mostly derived from the current media. Case discussions and in-class activities are an essential part of the course and your participation will be reflected in your grade. In preparing for class, students are responsible for mentally preparing answers as to what happened, why it

happened, how it demonstrated an ethical issue and how you might respond to the event if you were in a position of authority. As a basis for further discussion, we will occasionally call on students to provide answers. So be prepared, as we never want to embarrass anyone.

Final Exam

Our final exam will take place on Thursday, May 7 at noon in a room to be announced. Grades will be determined based on your ability to exhibit an understanding of the readings and class discussions. We will talk more about this during the semester but be assured that we are always looking for a demonstration of reasoning and judgment as opposed to a recitation of facts.

GRADING

The weights for the student's overall grade are:

Class Participation 25%;

Final Exam 75%

March 17, 2015

Part 1: Introduction-- Course concepts- Dealing with authority--The purpose of the Corporation

Cases:

“The Price of Lobster Thermidor” The Economist, August 23, 1997

Readings:

“Milgram Experiments on Authority”

<http://vimeo.com/15348932>

“The Social Responsibility of Business is to Increase Its Profits,” by Milton Friedman, N.Y. Times 9/13/60

Unrealized Potential: Misconceptions About Corporate Purpose and New Opportunities for Business Education by Miguel Padro, Aspen Institute Business & Society Program, May 2014.

<http://www.aspeninstitute.org/publications/unrealized-potential-misconceptions-about-corporate-purpose-new-opportunities-business>

Part 2: The Financial Crisis and Its Relevance to Responsibility in Business

Cases:

Goldman Sachs and Abacus: “SEC Complaint against Goldman Sachs and Fabrice Tourre”

<http://www.sec.gov/litigation/litreleases/2010/lr21489.htm>

Readings:

(Video) Too Big to Fail <http://viooz.co/movies/574-too-big-to-fail-2011.html>

“The Culture That Gave Rise to the Current Financial Crisis,” John C. Bogle, Founder and Former Chief Executive of the Vanguard Group, May 13, 2009

http://www.vanguard.com/bogle_site/sp20090513.html

“Enhancing Financial Stability by Improving Culture in the Financial Services Industry” by William C. Dudley

<http://www.ny.frb.org/newsevents/speeches/2014/dud141020a.html>

March 24, 2015

Part 1: Responsibility and Truth in Business

Cases:

“Bitter Pill; How a Drug Firm Paid for a University Study, Then Undermined It,”
Ralph T.J. King, WSJ, April 25, 1996

“Maker of Heart Device Kept Flaw from Doctors,” by Barry Meier, N.Y. Times 5/24/05

Readings:

“Is Business Bluffing Ethical” Albert Carr

“When Do Exaggerations and Misstatements Cross the Line?” by Stewart Friedman
<http://knowledge.wharton.upenn.edu/article/when-do-exaggerations-and-misstatements-cross-the-line/>

Part 2: Gifts, Bribery and Conflicts of Interest

Cases:

“Roger Berg,” by Ronald M. Green, the Ethical Manager 1994

Readings:

“The Economic Case for Bribery: You Get Who You Pay for; Corruption,” The Economist
6/2/12
<http://www.economist.com/node/21556255>

“Hiring in China by JPMorgan Under Scrutiny,” by Jessica Silver-Greenberg, Ben Protess,
and David Barboza

March 31, 2015

Part 1: Social Responsibility to Stakeholders

Cases:

“Curem Pharmaceutical,” by Larry Zicklin

Readings:

“Radio Shack is Running on Credit Derivatives” by Matt Levine, Bloomberg 12/18/14
<http://www.bloombergtview.com/articles/2014-12-18/radioshack-is-running-on-credit-derivatives>

Part 2: Responsibility to Stakeholders continued

Cases:

“Old City Enterprises” by Larry Zicklin

“Responsibility to Whom” by Larry Zicklin

Readings:

“Investment Riches Built on Subprime Auto Loans to Poor,” by Michal Corkery and Jessica Silver-Greenberg, NYT 1/26/15
<http://dealbook.nytimes.com/2015/01/26/investment-riches-built-on-auto-loans-to-poor/? r=0>

April 7, 2015

Part 1: Agency, Fiduciary Responsibility and the High Performance Workplace

Cases:

“U.S. and New York Sue Bank of New York Mellon Over Foreign Exchange Fees” by Eric Dash and Peter Lattman, New York Times, October 4, 2011

“How the forex scandal happened” by Philip Augar

<http://www.bbc.com/news/business-30003693>

Readings:

“Fiduciary Duties of Employees” by J. Robert Smith

<http://www.fiduciarylblog.com/2014/11/fiduciary-duties-of-employees.html>

Part 2: Insider Trading

Cases:

"Deciphering the Mosaic" Larry Zicklin

Readings:

“What is Insider Trading?” <http://www.sec.gov/answers/insider.htm>

“Busting Insider Trading: As Pointless as Prohibition” by Henry G. Manne, WSJ 4/28/14

<http://www.wsj.com/articles/SB10001424052702304279904579516170211639290>

April 14, 2015

Part 1: Sales and Marketing Ethics

Cases:

“Goldman/Kinder Morgan/El Paso: As an Advisor, Goldman Guaranteed its Payday,” by Andrew Ross Sorkin, N.Y. Times 3/5/12

<http://dealbook.nytimes.com/2012/03/05/advising-deal-goldman-sachs-had-all-angles-for-a-payday/? r=0>

Readings:

“Fair Play Measured In Slivers of a Second,” by James Stewart, N.Y. Times 7/13/13

<http://www.nytimes.com/2013/07/13/business/the-ethics-of-a-split-second-advantage-for-traders.html?pagewanted=all& r=0>

Part 2: Sales and Marketing Ethics continued

Cases:

“West Virginia Consolidated Investment Fund,” by Ingo Walter, NYU Stern School

Readings:

MetLife Defends Death-Benefit Approach to Regulators,” Leslie Scism, Wall Street Journal

April 21, 2015

Part 1: Moral Standards Across Borders

Cases:

“The Oil Rig” Joanne B. Ciulla

“The World of Wal-Mart,” S. Prakash Sethi May 13, 2013--
http://www.carnegiecouncil.org/people/data/s_prakash_sethi.html

Readings:

“In Praise of Cheap Labor: Bad Jobs at Bad Wages Are Better Than No Jobs At All” Paul Krugman
http://www.slate.com/articles/business/the_dismal_science/1997/03/in_praise_of_cheap_labor.html

“Values in Tension: Ethics Away From Home” Thomas Donaldson, Harvard Business Review, September-October 1996

“Universal Declaration of Human Rights” <http://www.un.org>

Part 2:

Cases:

The Last Days of MF Global by Peter Elkind
<http://fortune.com/2012/06/04/the-last-days-of-mf-global/>

Class Exercise

Readings:

“Reflections on Reputation and its Consequences” Governor Sarah Bloom Raskin at the 2013 Banking Outlook Conference at the Federal Reserve Bank of Atlanta, Atlanta Georgia, February 28, 2013
<http://www.federalreserve.gov/newsevents/speech/raskin20130228a.ht>
