

Syllabus**Theories of the Business Enterprise**

LGST 241/641

Instructor: Eric Orts
Classroom: JMHH F-94
Classes: Tuesdays, 3:00-6:00 p.m.

Office hours: TBA and by appointment
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Course description: This seminar-style course is designed for upper level undergraduate students as well as professional and doctoral students at Wharton and other schools at Penn. The only prerequisite is that students should have had previous training in academic writing sufficient to prepare them to write a final term paper which will count for the majority of the final grade. In other words, previous courses teaching good writing should already have been completed prior to enrolling in this course.

The course provides an interdisciplinary approach to understanding the nature of the business enterprise. Readings are drawn from various disciplines in order to encourage students to develop a broad appreciation of different perspectives. Different approaches taken in economics, history, law, philosophy, politics, and sociology are examined.

The overall objective of the course is to explore the business enterprise as an institution from different points of view. The emergence of various legal types of business enterprises is examined, as well as competing economic theories of the firm that have become influential. The relationship between business and politics is considered, as well as the general question is raised concerning whether business enterprises, such as corporations, can correctly be said to have ethical obligations and legal responsibilities.

For business students, economic theories of the firm offer an important source of strategic advantages in different settings. Law and politics are also practically important, and the course discusses these dimensions of business life as well. The course may appeal to students who are contemplating the “purpose” of pursuing various business careers (e.g., as entrepreneurs, managers, investors, consultants, etc.). It may also appeal to students who may wish to follow careers that involve business firms as a subject of further study (e.g., government, law, and various academic disciplines such as economics, history, philosophy, and political theory).

Students considering paths in nonprofit organizations or “hybrid social enterprises” (e.g., benefit corporations) that combine profit and nonprofit objectives may also find the course of interest.

Specifically, students who take this course will gain insight into the following questions:

- What is a business firm?
- How did various forms of business, including the corporation, arise historically?
- How do contemporary economic and financial theories explain how business firms evolve, grow, and die?
- What are the legal underpinnings of the forms of business enterprise, ranging from sole proprietorships to partnerships to family-owned enterprises to multinational corporate groups?
- How do business firms relate to politics and government, as well as religion? What is the relevance for business of recent Supreme Court cases such as *Citizens United* and *Hobby Lobby*?
- What is the relationship between business and the natural environment?

Class format, reaction papers, and student participation: Classes will be conducted in seminar style, and students will be expected to come to each class having done the reading in advance and prepared to discuss it. One-page reaction papers will be required twenty-four hours in advance of each class session in order to help structure discussion. Attendance and preparation for class will be expected and included as a component of the final grade for the course.

Grading: Final grades will be determined as follows. The primary requirement is the development of a final paper of between 12 and 15 pages (double-spaced, double-sided, and stapled with twelve-point font for text). If a bibliography is used, then it may exceed the 15-page limit for text. A draft of the paper will be presented in class for discussion at the end of the semester. A final copy should be sent by e-mail in readable electronic form as well as delivered in hard copy to the instructor’s mailbox in the Legal Studies and Business Ethics Department.

Class participation: 25%

Weekly reaction papers and draft presentation: 25%

Final paper: 50%

Paper draft and presentation: Students will take responsibility for a portion of a class session to present an initial draft of their final paper for general discussion and critical feedback from their colleagues as well as the professor.

Final paper: A final research paper is the primary formal class requirement on which the final grade will be based. The topic and its general methodology must be discussed with the professor in advance.

Required texts: The following books are required. It is recommended that students procure either hard copies from the Penn Book Center (which will have copies ordered) or elsewhere.

Electronic copies of many of the books are also available, and copies will be placed on library reserve. In addition, some required reading will be made available on Canvas and Study.Net.

John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (Modern Library 2005) (available in paperback and Kindle).

The Economic Nature of the Firm: A Reader (Louis Putterman and Randall S. Kroszner eds.) (Cambridge University Press, 3d ed., 2009) (available in paperback and as e-text).

Eric W. Orts, *Business Persons: A Legal Theory of the Firm* (Oxford University Press 2013) (paperback edition 2015).¹

Zephyr Teachout, *Corruption in America: From Benjamin Franklin's Snuff Box to Citizens United* (Harvard University Press 2014) (available in hardcover and Kindle).

Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (Routledge ed. 1992) (trans. Talcott Parsons, 1930) (1904-05) (any edition is sufficient; also available online).

James Gustave Speth, *The Bridge at the Edge of the World: Capitalism, the Environment, and Crossing from Crisis to Sustainability* (Yale University Press 2008) (available in paperback and Kindle).

Quality feedback/informal lunches/dinners: Optional lunches or dinners will be held to get feedback from students about the course as well as to encourage general informal interactions among students and professor. No credit (or penalty) will be given for participation in informal lunches or dinners.

Syllabus revisions. This version of the course is subject to possible revision in accordance with students' interests as well as time pressures of coverage or substitutions of course materials.

Course outline

Specific assignments will in general follow the outline provided below. Any changes will be announced in class. Any revised versions of the syllabus will also reflect any changes.

Week 1 – Introduction [Jan. 19]

In-class exercise, lecture, and discussion: What is a business? What disciplines are relevant for the study of business and why? Arguments presented for philosophy, history, economics, law, political theory, religion, and sociology. Review of course requirements and mutual expectations.

¹ Note that in order to prevent any appearance of a conflict of interest, an estimate of royalties received by the professor for student purchases of this book will be donated to a philanthropy decided by class nomination and vote.

Week 2 – An Opening Philosophical View: Are Business Firms “Persons”? [Jan. 26]

Required reading:

Roger Scruton and John Finnis, “Corporate Persons,” 63 *Proceedings of the Aristotelian Society, Supplementary Volumes* 239 (1989) [Reading 2A].

John Dewey, “The Historic Background of Corporate Legal Personality, 35 *Yale Law Journal* 655 (1928) [Reading 2B].

Week 3 – Business History: The Rise of the Corporation [Feb. 2]

Required reading:

Alfred D. Chandler, Jr. “Organizational Capabilities and the Economic History of the Industrial Enterprise,” 6 *Journal of Economic Perspectives* 79 (1992) [Reading 3A]

John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (Modern Library 2003) [entire book]

Week 4 – Economic Theories I: Divisions of Labor and the Firm [Feb. 9]

Required reading:

The Economic Nature of the Firm: A Reader (Louis Putterman and Randall S. Kroszner eds.) (Cambridge University Press, 3d ed., 2009), Part I, chapters 1 thru 5 (Smith, Marx, Knight, Berle and Means, and Hayek).

Week 5 – Economic Theories II: The Scope of the Firm and Employment [Feb. 16]

Required reading:

The Economic Nature of the Firm, Parts II and III, chapters 7 (Coase), 9 & 10 (Williamson), 11 (Milgrom and Roberts), 12 (Holmstrom and Roberts), 13 (Alchian and Demsetz), 17 (Bewley), and 18 (Pencavel).

Week 6 – Economic Theories III: Finance and the Firm [Feb. 23]

Required reading:

The Economic Nature of the Firm, Part I, chapter 6 (Zingales); Part IV, chapters 19 thru 23, 25-26 (Manne, Fama, Jensen and Meckling, Fama and Jensen, Hart, and Putterman).

Jean Tirole, “Corporate Governance,” 61 *Econometrica* 1 (2001) [Reading 6A].

Week 7 – Legal Theories I: Foundations of the Firm (Agency, Contracts, Property) [Mar.1]

Required reading:

Eric W. Orts, *Business Persons: A Legal Theory of the Firm* (Oxford University Press paperback rev. ed. 2015), chapters 1 and 2.

Spring break: No class on March 8.

Week 8 – Legal Theories II: Public/Private Distinction, Limited Liability, and the Legal Forms of Business Firms [Mar. 15]

Required reading:

Business Persons, chapters 3, 4, 5, and 6.

David Ceipley, “Beyond Public and Private: Toward a Political Theory of the Corporation,” 107 *American Political Science Review* 139 (2013) [Reading 8A].

Week 9 – Politics and the Firm [Mar. 22]

Required reading:

James G. March, “The Business Firm as a Political Coalition,” 24 *Journal of Politics* 662 (1962) [Reading 9A].

Zephyr Teachout, *Corruption in America: From Benjamin Franklin’s Snuff Box to Citizens United* (Harvard University Press 2014).

Excerpts from *Citizens United v. Federal Election Commission*, 558 U.S. 310 (2010) [Reading 9B].

Business Persons, chapter 8.

Week 10 – Religion and the Firm [Mar. 29]

Required reading:

Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (Routledge ed. 1992) (trans. Talcott Parsons, 1930) (1904-05).

Tae Wan Kim and Alan Strudler, “Workplace Civility: A Confucian Approach,” 22 *Business Ethics Quarterly* 557 (2012) [Reading 10A].

Excerpts from *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751 (2014) [Reading 10B].

Week 11 – Business Ethics: Firms and Moral Responsibility [Apr. 5]

Required reading:

Milton Friedman, “The Social Responsibility of Business is to Increase its Profits,” *N.Y. Times Magazine* (Sept. 13, 1970 [Reading 11A]).

Philip Pettit, “Responsibility Incorporated,” 117 *Ethics* 171 (2007) [Reading 11B].

Selected chapters from *The Moral Responsibility of Firms* (Eric W. Orts and Craig Smith eds.) (Oxford University Press forthcoming) [Readings 11C to 11F].

Week 12 – Business and the Natural Environment [Apr. 12]

Required reading:

James Gustave Speth, *The Bridge at the Edge of the World: Capitalism, the Environment, and Crossing from Crisis to Sustainability* (Yale University Press 2008) [entire book; omit Part III if pressed for time].

Week 13 and Week 14 – Student Drafts and Presentations [Apr. 19 and 26]