

Syllabus [Revised]**Responsibility in Business**

## LGST 612

Instructor: Eric Orts  
Classroom: JMHH F-60  
Classes: Tuesdays and Thursdays, 9:00 to 10:30 am

Office hours: TBA and by appointment  
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Course description: This course focuses on legal and ethical responsibility in business. The course aims to encourage students both (1) to reflect on their own personal ethical views as they may apply in complex business situations in various sectors, including general management, banking, consulting, finance, and other business professions and (2) to acquire a core of business-relevant legal knowledge that will enable students to avoid litigation pitfalls and develop proactive business strategies that are legally informed. Class exercises, discussions, and formal assignments will focus on exploring and reflecting on students' own ethical compasses and orienting them to contemporary business challenges, as well as developing a basic understanding of key legal principles that are useful in professional business settings. Several selected legal cases will be employed to cover some basic "rules of the game" governing expectations of business responsibility today. On one level, then, the course endeavors to transfer knowledge derived from lawyers and business ethicists that prove will useful in practice. On another level, the course encourages students to reflect on their own experiences and to do research with respect to their future fields of work regarding the legal and ethical frameworks of their expected careers. This course in one version or another is required because business responsibility (broadly understood) is agreed by all serious participants and observers as an essential component of a successful business career.

This particular section of LGST 612 draws on the instructor's expertise in corporate and securities law, as well as professional ethics. (See bio appended below.) Classes follows twice a week standard format. Attendance is required for all classes. Missing a class—or coming to class late or leaving early—without a bona fide excuse or sound justification will be taken into account in the class participation component of the grade described below.

In general, this course focuses on legal and ethical issues that are relevant for students preparing for any managerial, investment, or professional position that is likely to place them in the role of

a legal business agent representing and owing legal and ethical duties to employers, clients, suppliers, and customers. The course aims to develop skills in ethical and legal analyses to assist managers and other business professionals when they make individual-level and firm-level decisions about the proper courses of action when duties, loyalties, rules, norms, and interests are in conflict.

To assure that the course concepts are anchored in practical application, students will self-select into teams of approximately three to four students (minimum of two and maximum of five). These teams will prepare a group presentation to be delivered in classes at the end of the semester regarding a legal or ethical problem or issue in business relevant to their own interests and career trajectories. This will require research and perhaps personal interviews with practicing executives as the basis for the presentation.

Required readings: Required reading materials are provided as files on Canvas. Any handouts circulated in class or electronically via e-mail are also considered required materials. In addition, the following books are optional (available in print or electronic versions) and made available also on reserve.

Harry G. Frankfurt, *On Bullshit* (Princeton University Press 2005).

Jon M. Huntsman, *Winners Never Cheat—Even in Difficult Times* (Prentice Hall, rev. ed., 2011).

Class format and student participation: Classes will combine lecture, Socratic dialogue, group discussion, and group presentations. Students will be expected to have read material assigned for class and to be prepared to discuss it.

MBA “Concert Rules”: Classes will be conducted according to Wharton faculty-student established “concert rules”:

1. Class starts and ends on time. Students and faculty are expected to be timely.
2. Students are to sit according to a seating chart.
3. Students and faculty should remain in attendance for the duration of class.
4. Students should display name plates.
5. All phones and electronic devices, including laptops, should be turned off.

MBA Ethics Code: The MBA Ethics Code and all of its rules and standards regarding student integrity, anti-plagiarism, and prohibition of any form of cheating in individual or group work applies in this course, as in any course. Any violations will be prosecuted and strictly enforced by the instructor.

Grading: Grades for the course will be assessed as follows.

1. Class Participation (25%). Class attendance and the instructor's evaluation of the performance and quality of participation of students will comprise 25% of the grade. Each class will be assessed independently with ratings combined at the end of the course. Unexcused absences from class or departures from the concert rules in class will negatively affect class participation. Regular, informed, and on-topic in-class contributions will count positively. Important note: Failing to attend all classes may result in a failed grade for the course. Only bona fide excuses will be accepted for absences.
2. Individual Essay (25%). A short essay is required reflecting on an ethical or legal issue that one has faced or experienced in practice. Include possible "learning lessons" or "take-away principles" to recommend for the future to classmates. The written essay should comprise two to three double-spaced, double-sided pages with standard font and formatting. Include any references if needed. It is also permissible to use an anonymous reporting format in order to preserve confidentiality. Important note: Please submit your essay electronically (at least one day in advance of Class 4 if possible) to the instructor via Canvas.
3. In-Class Test (25%). An in-class test to be administered in Class 7 is designed to assess students' understanding and retention of some main lessons in professional ethics and relevant business law covered in the first six classes of the course.
4. Group Project and Presentation (25%). Students will divide themselves into groups according to expected occupations or previous occupations or mutual interest in a particular topic. Each group will include approximately three to four students (with a minimum of two and maximum of five). Groups will research a topic regarding (a) best ethical and legal compliance practices in a particular firm, (b) a particular ethical or legal issue within a particular business or industry (e.g, consulting, finance, general management, or specific industries such as health care, internet start-ups, or energy), or (c) another topic relevant to business responsibility, law, or ethics. Topics for group presentations must be discussed and cleared with the professor in advance either in person or by e-mail. Presentations on the topics will be in class at the end of the semester.

Informal lunches or dinners: Optional lunches or dinners may be held to get feedback from students about the course as well as to encourage general informal professor-student interactions. No credit (or demerit) for class participation will be given for participation (or not) 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. Readings other than books or in-class handouts are available on Canvas.

[Class schedule revised to account for snow cancellation on Mar. 14]

### **Class 1 Business Responsibility: The Legal and Ethical Context of Business** [Mar. 16]

Description: This class provides an introduction to the course and reviews its coverage, requirements, and mutual expectations (including a primer on the use of legal rather than business school cases). It focuses on how law and ethics establish non-market constraints on business persons (both firms and individuals). It reviews the structure of business enterprise focusing on its participants (owners, investors, managers, and employees). A review of ethical and legal frameworks related to business responsibility is presented. Two in-class exercises provide an introduction to business ethics decision-making.

#### Readings:

Handout: The Ring of Gyges Exercise (adapted from Plato's *Republic*) [1].

Handout: A Banker's Costly Cab Ride and Morgan Stanley's Code of Ethics [2].

Optional: Original Ring of Gyges excerpt from Plato's *Republic* [3].

### **Class 2 Ethical Reasoning and Business Responsibility** [Mar. 21]

Description: This class focuses on reviewing some basic elements of ethical reasoning.

#### Readings:

Thomas Donaldson and Patricia Werhane, "Introduction to Ethical Reasoning," excerpt from *Ethical Issues in Business: A Philosophical Approach* (8<sup>th</sup> ed. 2007) [4].

Diversity in Business, excerpt from *Bollinger v. Grutter*, 539 U.S. 306 (2003) [5].

Kevin Dutton, "The Wisdom of Psychopaths," *Scientific American* (Oct. 2012), <https://www.scientificamerican.com/article/wisdom-from-psychopaths/> [6].

Nitin Nohria, "You Are Not as Virtuous as You Think," *Washington Post* (Oct. 15, 2015), [https://www.washingtonpost.com/opinions/youre-not-as-virtuous-as-you-think/2015/10/15/fec227c4-66b4-11e5-9ef3-fde182507eac\\_story.html](https://www.washingtonpost.com/opinions/youre-not-as-virtuous-as-you-think/2015/10/15/fec227c4-66b4-11e5-9ef3-fde182507eac_story.html) [7].

In-class video:

Dan Ariely, Interview with Knowledge@Wharton on The (Honest) Truth About Dishonesty (2013), available at <http://knowledge.wharton.upenn.edu/article/dan-ariely-dishonestys-slippery-slope/>.

### **Class 3 Lessons from Practice [Mar. 23]**

Description: A guest lecturer will come to class and will impart some basic advice and field questions about employing and managing lawyers in business practice. Please have questions ready for him as well.

Guest lecturer from practice: Aidan Synnott, litigation partner, Paul, Weiss, Rifkind, Wharton & Garrison.

### **Class 4 Personal Reflections on Ethical/Legal Experiences [Mar. 28]**

Description: This class focuses on sharing students' own reflections on an ethical or legal challenge that they have faced in practice. Students should select examples to share for pedagogical value that their colleagues may also find valuable or edifying. A guest lecturer will also come to class and will impart some basic advice and field questions about employing and managing lawyers in business practice.

Written Assignment: Individual Essay: Prepare a brief personal example of an ethical or legal issue faced in practice with at least one "learning lesson" or other "take-away principle" to recommend for the future to classmates. The written essay should comprise two to four double-spaced, double-sided pages. Include references if needed. Be prepared to share and discuss your example in class. Please submit essays via Canvas on the day prior to the class meeting.

### **Class 5 Fiduciary Duties in Business Organizations [Mar. 30]**

Description: This class reviews the basic legal structure of the business corporation, the largest, most popular, and most widespread business form used for most professional services firms in the world today (with some exceptions that now borrow features from corporate law, such as limited liability companies). It addresses how fiduciary duties apply to managers and directors in a corporate context and raises questions about whether business firms owe larger duties to society in general (e.g., ethical arguments favoring "corporate social responsibility" and "corporate citizenship"). The class also provides an introduction to legal variations of business firms (e.g., sole proprietorships, partnerships, limited liability companies, limited liability partnerships, and benefit corporations) and the ubiquitous use of legal agency in business practice (including employment). It

introduces students to various associated legal ideas, including vicarious liability, limited liability, and fiduciary duties of care and loyalty.

Readings:

*Dodge v. Ford Motor Co*: Managing for Shareholder Value [8].

American Law Institute, *Principles of Corporate Governance*, sect. 2.01 [9].

*Meinhard v. Salmon*: A Classic Expression of Fiduciary Duties [10].

*Cargill*: Debt, Equity, Agency, and Fiduciary Duty [11].

Controversy at Goldman: Greg Smith v. Goldman Sachs in the Press [12].

**Class 6 Obligations to the Truth: Securities Fraud, Insider Trading, and Other Means of Deception in Business** [Apr. 4]

Description: This class discusses the general ethical and legal obligations of telling the truth, including prohibited “material omissions” that are the equivalent of fraudulent behavior such as in the case of insider trading. The focus is primarily on securities fraud, though the larger question of “bullshit” (understood as a technical philosophical term) in commercial life is also considered.

Readings:

Harry Frankfurt, excerpt from *On Bullshit* [13]

Harry Frankfurt, “Donald Trump is BS, Says an Expert on BS,” *Time* (May 12, 2016), <http://time.com/4321036/donald-trump-bs/>.

Discussion Questions for *On Bullshit* [14].

*Basic*: Private Rights of Action for Securities Fraud [15].

Note on *Texas Gulf Sulphur* and the Fiduciary Theory of Insider Trading [16].

*United States v. O’Hagan*: Trading on Misappropriated Inside Information [17].

*Salman v. United States*, U.S. Supreme Court, slip opinion (Dec. 6, 2016) [18].

**Class 7 In-Class Test [Apr. 6]**

Description: This in-class test will include true/false, multiple choice, and essay questions. It will assess students' acquisition of knowledge in the course based on material covered in the previous four classes.

**Class 8 Student Presentations [Apr. 11]**

Description: This class will consist entirely of final student presentations.

**Class 9 Student Presentations [Apr. 13]**

Description: This class will consist entirely of final student presentations.

**Class 10 Student Presentations [Apr. 18]**

Description: This class will consist entirely of final student presentations.

**Class 11 Student Presentations [Apr. 20]**

Description: This class will consist entirely of final student presentations.

## Bio of Instructor

Eric Orts is the Guardsmark Professor at the Wharton School of the University of Pennsylvania where he has taught since 1991. He is a tenured professor in the Legal Studies and Business Ethics Department with a joint appointment in the Management Department. He also serves as the faculty director of the Initiative for Global Environmental Leadership and faculty co-director of the FINRA at Wharton Institute's Certified Regulatory Compliance Professional Program. His primary research and teaching interests are in corporate governance, securities regulation, environmental law and management, and professional ethics. An example of his research is his recent book on *Business Persons: A Legal Theory of the Firm* (Oxford University Press, paperback ed. 2015). Another example is a book on *The Moral Responsibility of Firms* (co-edited with Craig Smith) (Oxford University Press, forthcoming 2016).

Prior to joining Wharton's faculty, Professor Orts practiced law as a litigation associate at Paul, Weiss, Rifkind, Wharton & Garrison in New York City and was a Chemical Bank fellow in corporate social responsibility at Columbia Law School. He has also taught and visited at a number of other leading business and law schools, including INSEAD, the University of Pennsylvania Law School, NYU School of Law, Sydney Law School, Tsinghua University School of Economics and Management, the University of Michigan Law School, and UCLA School of Law. He has been a visiting Fulbright professor in the law department of the University of Leuven, the Eugene P. Beard Faculty Fellow at Harvard University's Center for Ethics and the Professions, and a faculty fellow in the Center for Business and Government at the Kennedy School at Harvard.

Eric Orts is a graduate of Oberlin College (BA), the New School for Social Research (MA), the University of Michigan (JD), and Columbia University (JSD). He is a member of the bar in New York and the District of Columbia, as well as an elected member of the American Law Institute, and belongs to several other professional and academic associations. He is a founding board member of the Alliance for Research on Corporate Sustainability (ARCS) and serves on the editorial board of *Business Ethics Quarterly*.

In work over the course of his career, he has advised and interacted with a wide range of companies in different sectors and in different countries, mostly in academic, consulting, or executive education contexts.