

Syllabus**Theories of Business Enterprise**

LGST 241/641

Instructor: Eric Orts
Classroom: Huntsman Hall 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 MBA, 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.

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 for strategic advantages and insights in different settings. Law and politics are also practically important, and the course discusses these dimensions of business life as well. The course may also appeal to students who are contemplating the “purpose” of pursuing various business careers (e.g., as entrepreneurs, managers, investors, consultants, etc.). And it may 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?
- Do business firms have ethical responsibility as organizational entities? What kind of ethical responsibilities to business participant within firms have?
- 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%

Reaction papers, paper draft, and presentation: One-page reaction papers on readings will be used to guide discussions. Students will also take responsibility for a portion of the last class to present a draft of their final paper for discussion and feedback from their colleagues and 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 via Canvas.

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).

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

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

Ayn Rand, *Atlas Shrugged* (1957) [any published version; available in mass paperback].

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

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).

Thorstein Veblen, *The Theory of the Leisure Class* (1899) [any published version].

Optional: *The Moral Responsibility of Firms* (Eric W. Orts and N. Craig Smith eds.) (Oxford University Press 2017).

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 [Aug. 29]

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.

Week 2 – An Opening View: Are Business Firms “Persons”? [Sept. 5]

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].

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

Week 3 – Business History: The Rise of the Corporation [Sept. 12]

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 – The Legal Structure and Forms of Business Enterprise [Sept. 19]

Required reading:

Orts, *Business Persons*, chapters 2, 4, and 5.

Also: discussion of ideas for paper topics.

Week 5 – The Morality of Firms (or Not) [Sept. 26]

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].

Chapter selections from *The Moral Responsibility of Firms* (Eric W. Orts and N. Craig Smith eds.) (Oxford University Press 2017).

Week 6 – Economic Theories I: Divisions of Labor and the Firm [Oct. 3]

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).

[Fall Break]

Week 7 – Economic Theories II: The Scope of the Firm and Employment [Oct. 10]

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 8 – Economic Theories III: Finance and the Firm [Oct. 17]

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 8A].

Week 9 – Legal and Political Theories of the Firm [Oct. 24]

Required reading:

Orts, *Business Persons*, preface and introduction, chapters 3, 7, and conclusion.

David Ceipley, “Beyond Public and Private: Toward a Political Theory of the Corporation,” 107 *American Political Science Review* 139 (2013) [Reading 9A].

Week 10 – A Sociological Perspective: The Theory of the Leisure Class [Oct. 31]

Required reading:

Thorstein Veblen, *The Theory of the Leisure Class* (1899) [any published version].

Week 11 – Government and Business Enterprise: The Challenge of Objectivism [Nov.7]

Required reading:

Ayn Rand, *Atlas Shrugged* (1957) [any published version].

Week 12 – Government and Business Enterprise: The Problem of Corruption [Nov. 14]

Required reading:

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

Week 13 – The Natural Environment and the Business Firm [Nov. 28]

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 14 – Student Drafts and Presentations [Dec. 5]

Final Papers are due on Monday, December 18.

Submit paper via Canvas. Also deliver hard copy, double-sided and stapled, to sixth floor, Legal Studies and Business Ethics Department.

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 secondary appointment in the Management Department. He also serves at 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, business theory, and professional ethics. An example of his research is his 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 2017).

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.