



## **Professional Responsibility**

(Markets, Ethics and Law)  
COR2 – GB.3101 (Section2)

Prof. Roy C. Smith

1:30 pm, T/Th Fall 2016

This course focuses on the managerial aspects of employee conduct in business. It utilizes the longstanding Stern concept that business “ethics” is what happens in the space between competitive pressures in markets and increasing aggressive application of State, Federal and international law by regulators, prosecutors and class action plaintiffs.

We begin with a few sessions on the “ethical environment,” pressures to perform, and built-in checks and balances in the corporate governance system. Then we move on to analyze and discuss three industries with longstanding reputations for poor ethical behavior (finance, autos, pharmaceuticals), putting ourselves in the position of executives in the business at the time.

We conclude by seeking to design ethical rules for a company we might work in (or own) together with procedures and infrastructure for enforcing the rules.

Along the way, we will discuss events from the news that reflect on ethical conduct.

### **Deliverables:**

- Two op-ed articles of no more than 1,000 words.
- A group analysis and presentation as to what happened in the selected industries to cause serious ethical shortcomings
- Class participation

There is no final exam.

### **Professor:**

Roy C. Smith is the Kenneth Langone Professor on Finance and Entrepreneurship at Stern, where he has taught for many years. He is the author of several books on financial events, rises and developments over the past 50 years. He was a partner of Goldman Sachs & Co. before joining Stern. See his Blog: [bank-o-nomics.blogspot.com](http://bank-o-nomics.blogspot.com)

## Course Outline

1. Sept 6 **The Amorphous Ethical Threshold in Society**
  - a) "White Lies" and other tolerated offenses
  - b) Generation change
  - c) Left to itself, societies standards of ethical conduct are very wide ranging, inconsistent and difficult to enforce
  - d) "Operational risk," reputations and why this matters in business
  - e) Ethical failure, what is it and why does it occur?

Read: Albert Carr, "Is Business Bluffing Ethical?" (1968)

2. Sept 8 **Ethical Failure in High Performance Industries**
  - a) Performance-oriented environments; innovation, technology
  - b) Compensation and other incentives
  - c) Cost of compliance and internal audits
  - d) Inconsistency of enforcement
  - e) Rationalizations
  - f) "Expected values" of behavioral choices
  - g) Public policy contributions to ethical failure

Read: Smith & Walter, "A Walk on the Wild Side," (1997)

3. Sept 13 **Institutionalized Checks and Balances**
  - a) Legal structure of corporations
  - b) Duties of Boards
  - c) Law enforcement agencies
  - d) Regulators
  - e) Stock market prices

Read: Legacies of the Corporation," from *Governing the Modern Corporation*

4. Sept. 15 **Corporations and Boards**
  - a) Modern Corporate Governance
  - b) Delaware Chancery Court
  - c) The SEC and securities laws

Read: (a) "The Role and Duties of Corporate Directors," from *Governing the Modern Corporation*, (b) "The Social Responsibility of Business is to Increase its Profits," Milton Friedman (1970)

5. Sept. 20 **The CEO and Modern Corporate Management**

Read: "Evolution and the Powers of the CEO", from *Governing the Modern Corporation*

**OpEd 1 Due** (Pick a recent case of ethical failure and explain why it occurred)

6. Sept 22 **Financial Crises and their Fallout**
- a) 1930s, 1980s, 2000s
  - b) 2008 – what the banks were accused of doing
  - c) Effects on the firms
  - d) Remedies and outcomes; was it “fair”

Read: “Armageddon,” Chapter 1, *Paper Fortunes*

7. Sept 27 **What the Bankers Did, and Why**

**Group (1) Presentation: Ethical Failure in the Financial Industry**

- a) What were the failings
- b) How and why did they occur (and reoccur)
- c) Impact and lasting consequences

Read: “Compensation in the Global Banking Industry;” “Wall Street Crime: 7 Years, 156 Cases and Few Convictions”

8. Sept 29 **The Auto Industry’s Long History of Scandal**
- a) Toyota\*
  - b) General Motors\*
  - c) VW\*
  - d) Takata

Read: “Here are some of worst car scandals in history”

9. Oct 4 **What the Auto Companies Did, and Why?**

**Group (2) Presentation: Ethical Failure in the Automobile Industry**

- a) What were the failings
- b) How and why did they occur (and reoccur)
- c) Impact and lasting consequences

Read: “The Dirt Under the Bonnet” (Volkswagen)

10. Oct 6 **Marketing and Sales in The Pharmaceutical Industry**
- a) Pfizer and its competitors
  - b) Theranos
  - c) Inversions

Read: (a) “Ethical Issues in Pharmaceutical Sales,” (b) “Theranos Under Pressure as Inquiries Mount”

11. Oct 11 **What the Pharma Companies Did, and Why?**

**Group (3) Presentation: Ethical Failure in the Pharmaceutical Industry**

- a) What were the failings
- b) How and why did they occur (and reoccur)
- c) Impact and lasting consequences

Read: (a) "Drug Pushers: The Ethics of Pharmaceutical Marketing," (b) "List of the Largest Pharmaceutical Settlements."

12. Oct 13 **Ethics are a Management Issue**

- a) Designing a system\*
- b) Is the effectiveness of the system a function of what you measure?

**OpEd 2 due** (Design a system for managing ethical conduct at a company you know )

13. Oct 18 **Implementing the System**

- a) Controls, data, infrastructure
- b) Enforcement

Read:

14. Oct 20 **What We Have Learned**