NYC Immersion Seminar

Governance and Ethics -­ Spring B 2019

Every Friday in April

Time: 10 am to 3 PM

Uris 140

**FOR BIDDING PURPOSES ONLY**

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Uris Hall 706, office hours by appointment, before

After class

**This class is supported by the New York Immersion program and the Bernstein Center for Leadership and Ethics.**

**Course Overview**

This course is one of the New York City Immersion Seminars offered by Columbia Business

School. The immersion courses are designed to build upon our school’s advantageous location and access

to captains of industry. The course, like other Immersion Courses, takes place over four Fridays in Term

B of the Spring Semester.

Governance is the formal (e.g. legal) and informal (e.g. clubs) institutions that allocate power to steer, monitor, and ultimately control an organization. There are a few courses on this topic, and I teach one of them, *The Fundamentals of Governance.* This course has been taught in the bloc week of the Winter (January) and summer (May) semesters. What makes this immersion course different is that we focus on the intersection with Ethics.

Now Ethics may sound scary, religious, arrogant, and it may be all of those things. From a business perspective, the effect of good ethics can seem like having the anchor out when speed racing a boat. Certainly, this is not a bad metaphor for the post-crisis regulatory provisions put into place by Dodd Frank. There are reasons, sometimes, to slow things by regulation, but it does strike many in the summer heat before the storm to be less fun than full throttle ahead.

There is a more positive perspective that understands ethics through the ways that things might be done better both in the sense of efficiency but also fairness. I have a simple framing of governance. Governance is the triumvirate of power, efficiency, and fairness or PEF. In this course, we want to talk about all three, with a particularly closer look at ethics.

Our approach to ethics is to consider the institutions, and their design, for understanding the balance between power, efficiency, and ethics. This approach is grounded in the treatment of ethics founded on the institutionalized norms of a society and the intrinsic value to individuals to act in accordance with their concept of duty and obligation. Ethics of this type concede that individuals will vary in their type and motivations. Motivations matter.

The design principle of governance is to establish an institutional and cultural context by which the process of governing is robust to the perturbations of personality. Governance are the rules and powers to smooth out the personal variances in order to achieve a legitimate and authentic expression of the fair.

The most insightful first question is *cui bono*: in whose interest does the organization serve? Governance often states a benefactor, such as the owner, or shareholder, or government. However, *de facto*, the organization may serve other interests and people, such as enriching a corrupt politician or, to take a positive case, engaging the voice of stakeholders. A good question to consider is, in *whose interest should* it be run and *who should have the power* to make sure the objective is met? Is this efficient? Is it fair?

Consider the experiences of David Crane who visited our class last year, along with two financial activists from Elliot Management. Is this change of sentiment reflected in capital markets? The [firing of David Crane](https://www.nytimes.com/2016/08/14/business/energy-environment/how-producing-clean-power-turned-out-to-be-a-messy-business.html) who, as CEO of one the largest utilities NRG in the US, called climate change “a moral imperative”, shocked environmentalists. Within six months of the change in CEOs, activist investor Elliott took a 6.9% equity interest in NRG and succeeded, along with other activists, in bringing two new directors to their board. The New York City Comptroller who oversees the city’s pension funds [filed a letter with the SEC](file:///C%3A%5CUsers%5Chn2276%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CINetCache%5CContent.Outlook%5CJTECY9W6%5Cfiled%20a%20letter) to protest the appointment of Barry T. Smitherman, a lawyer and former energy industry regulator from Texas, who publicly questioned accepted climate science and called global warming a hoax, according to the New York Times article hyperlinked above.

These are not simply differences in opinion. They are also struggles of power about who governs, what is efficient and profitable, what is fair and just.

The course presents us with the opportunity of analyzing four very different cases and institutions to study the variations on the solutions that institutions of governance seek to balance power, efficiency, and fairness between deciding who should govern and be governed.

**Requirements:**

Grading : 40% participation including polls, 20% team preparation, 40% report of less than 10 pages. You may be at maximum 3 authors. For the team preparation, you will sign up before the start of the first class to indicate your first and second choices to prepare questions for the speakers. Your papers should be related to your preparation and this session. We may have time at the end to entertain a few presentations.

Every session will have a set of mandatory readings that will be posted in the next iteration of the syllabus. One reading is not mandatory, but is highly advised to read. It is an advanced reading for an MBA course –you all can do it but you may want to read [first this friendlier version.](https://hbr.org/2017/10/serving-shareholders-doesnt-mean-putting-profit-above-all-else)

Oliver Hart and Luigi Zingales, “Companies Should Maximize Shareholder Welfare Not Market Value”,*Journal of Law, Finance, and Accounting*, 2017, 2: 247–274

**Please note that you are required to do the reading for each session. I ask that you come prepared.**

Here are the people who will speak in the course.

**April 5, 2019**

1. Can Social Purpose be Sustained in Capital Markets for the Public Firm?

Case: Etsy: The Conflict between Social Values and Financial Discipline

**Reading**: See Hart and Zingales hyperlink above and hyperlink to Milton Friedman below.

**Setting:**

You have had discussed and argued more than once the question should the public firm maximize more than economic value. By now, you have probably read the very short article by Milton Friedman, published in the New York Times Magazine in 1970 that said yes [but](https://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html) “while con­forming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.” This position almost definitely defined the dominant thinking on this topic in the teaching of corporate finance until recent years. Climate change, inequality, stratification of business leaders by gender and race are many of the issues that have come to shake this confidence in business schools that ‘yes’ is the right answer.

The argument for the purposed organization is that the pursuit of the ethical increases motivation, productivity, and profits. The IPO of Etsy was seen by many as a test of that idea. Its founder Chad Dickerson scoffed at the Friedman thesis during a CSR conference in 2014. It went public in April 2015 with a valuation of $1.8 billion and within a week, its shares lost a third of their value. By fall of 2016, it fired a third of its work force. Chad Dickerson was fired in May 2017, partly in response to activist investor Seth Wunder at Black-and-White Capital. A new CEO Josh Silverman took the reins and initiatied a series of changes that improved dramatically the profitability of the firm and also a commitment to social purpose.

This year we have the good fortune to visit Etsy in their Brooklyn headquarters. We will discuss in the morning the Etsy case, Friedman article, and the Hart and Zingales article in HBR. Then we will grab some lunch boxes and bus our way to Brooklyn to take a tour of their building and to meet the charistmatic **Josh Silverman, CEO of Etsy**.

 **Additional Reading:**

On social activists:

* <https://hbr.org/2018/01/the-new-ceo-activists>
* <https://www.nytimes.com/2016/04/03/opinion/sunday/the-power-of-ceo-activism.html>

**Schedule:**

**1:00-1:30pm** Private tour of facilities

**1:30-2:30pm** Meet with Josh Silverman

**2:30 -**… Discussion in Brooklyn on Etsy.

**April 12**

1. For whom are cultural organizations governed?

New York City is gifted with incredible cultural institutions: museums, music halls, dance, media (WSJ, NYT, New Yorker, Atlantic Monthly, the Post, the New York Public Library, Metro Diner, etc.). They differ in all the ways that the City itself differs. They rely on funding, public, foundational, private, and the sources of funding have power. But maybe not as much power as they would always like. They serve different though overlapping audiences. Carnegie Hall this year features its always wonderful program of great orchestras, jazz, quartets, dance. This year, it is weaving the culture of three great migrations throughout its programming. With so much money, so much prestige attached to each institution, so many stakeholders, how does the leader of a cultural institution succeed, and how much help does its board provide?

We are fortunate that we will have the opportunity to build the senior leadership at Lincoln Center. A central topic for us to consider is: what should be performed at Lincoln Center and for whom?

We will travel to meetacting President of Lincoln Center, Russell Granet. Mr. Granet will discuss the governance challenges that confront a leader of one of an institution that is world famous and still ambitious to grow and expand its cultural activities.

Case Reading:

[Making Lincoln Center Cool Again](https://hbswk.hbs.edu/item/hbs-cases-making-lincoln-center-cool-again), HBS

**Schedule:**

**12:30-1:30pm** Private campus tour

**1:30-2:00pm** Walk over to Rose Building (9th floor, Executive Conference Room) and get settled

**2:00-3:00pm** Meeting with Russell Granet, Lauren Klein, Tamar Podel

**April 19**

1. Serving the Public

The [Apollo Theatre](https://www.apollotheater.org/) and the [New York Public Library](https://www.nypl.org/) are two great global and historical institutions located in Manhattan.

In the morning at 11 am to 12, we welcome [Jonelle Procope](https://www.apollotheater.org/about/leadership/), President of the Apollo Theatre, to Columbia who will explain how governance and ethics hit the reality of New York City in one of the most historical cultural institutions.

We will then take the bus to meet from 1 to 3 with [Tony Marx](https://www.nypl.org/help/about-nypl/president-and-leadership), President of the NYPL, to discuss the mission of the library, governance, and his drive to move to digital lending of books to reach a larger audience, among other projects. We also will be given a tour of the library.

Readings:

To come.

**Schedule:**

 **10-11:00am** Class discussion

 **11-12:00pm** Jonelle Procope

**1-3:00pm** Tony Marx at the NYPL

**April 26th**

1. Do you think culture can regulate a financial institution to be less prone to moral hazard behaviors?

A visit to the **Federal Reserve Bank**, NYC. The Bernstein Center has cooperated on a number of projects with the FRBNY over the past years, with most recently participation in the Reserve Bank’s efforts to promote cultural change inside of financial institutions as a complement to regulation. The culture initiative has been a top priority for the FRBNY President, William Dudley, who will step-down in May. Top officials of the bank will meet us to review the lessons from the financial crisis and the challenges and success of using soft regulation through cultural change.

Morning Guest: David Beim.

David Beim worked for twenty-five years in investment banking before joining Columbia Business School, where he had been a much-acclaimed professor of professional practice in the finance and economics division since 1991 until stepping down in 2016. He is the co-author of *Emerging Financial Markets* and serves as a director of several mutual funds managed by Merrill Lynch. He placed a powerful stamp on the teaching of ethics at the School.

* + [WSJ on the David Beim Report](https://blogs.wsj.com/economics/2014/10/08/new-york-fed-needed-a-culture-change-columbia-professor-says/)
	+ [David Beim Report](https://www.documentcloud.org/documents/1303305-2009-08-18-frbny-report-on-systemic-risk-and.html)

# [New York Fed Chief Calls for Improved Wall Street Culture, Peter Eavis, NYT, Nov. 5, 2015.](https://www.nytimes.com/2015/11/06/business/dealbook/new-york-fed-chief-calls-for-improved-wall-street-culture.html)

Afternoon: Visit to the FRBNY.

Tentative Schedule

**12:00pm** **Registration** **Opens** (33 Liberty Street entrance)

**12:15pm** **Welcome Remarks** (Museum and Learning Center)

 Anand Marri, Vice President, Communications & Outreach

Bruce Kogut, Sanford C. Bernstein & Co. Professor of Leadership and Ethics at Columbia Business School

**12:30pm** **Museum and Gold Vault Tour**

**1:00-1:30pm** **Speakers: TBA**

**1:45-3pm** **Panel Discussion:** How the financial crisis led to a focus on corporate governance and culture reform in banking and financial services