NYC Immersion Seminar
(Not the final version – class content based entirely on 2018 syllabus)
Governance and Ethics - Spring B 2019
Every Friday in April
Time: 10 am to 3 PM

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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 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?

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://example.com).


Here are the people who will speak in the course.

**April 6, 2018**

1) **Can Green be Sustained in Capital Markets for the Public Firm?**

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 “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.

Is this change of sentiment reflected in capital markets? The firing of David Crane 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](https://example.com) 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.
The Speakers and their visit:

Visit: 1-3 pm @ CBS.

David Crane, chief strategy officer for Pegasus Capital Advisors, former CEO of NRG, the largest energy company in the country. Mr. Crane sought to alter NRG’s portfolio by favoring green alternatives to carbon-based energy. Activist investors removed him in December 2015. Since then, the Elliott Management Company and its head Peter Singer have placed directors onto the NRG board and recently announced to split the company into two parts. Mr. Jeff Rosenbaum, Portfolio Manager, Geoffrey Sorbello, Manager of Strategic Equities, both at Elliott Management, and Mr. Crane will discuss the NRG case and the sustainability of alternative energy strategies by major utilities.

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

April 13

2) Is there a trade-off between Efficiency and Purposed Organizations?

Part A:

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.

Visit @ CBS: 10 am @ CBS

Seth A. Wunder, CFA
Principal & Portfolio Manager
black-and-white Capital LP, Los Angeles

Readings:

• black-and-white Capital Letter to Etsy Board on 3/13/17
• black-and-white Capital Letter to Etsy Board on 4/3/17
Part B:

3) What should be performed at Lincoln Center and for whom?

We will travel to meet Debora Spar, president of Lincoln Center, former President of Barnard University, and HBS professor. Dr. Spar will discuss the governance challenges that confront a leader of one of the most important cultural institutions in one of the richest cities in the world.

Case Reading:

- Making Lincoln Center Cool Again, HBS

April 20th

4) 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
- David Beim Report

Afternoon: Visit to the FRBNY. Tentative Schedule
12:00 pm  **Registration Opens** (33 Liberty Street entrance)

12:15 pm  **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

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

1:00-1:30 pm  **Speaker**

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

**Moderator**: Jack Gutt, Executive Vice President, Communications & Outreach
**Panelists**: Michael Held, Executive Vice President, Legal Group
Helen Mucciolo, Executive Vice President, Corporate Group
Kevin Stiroh, Executive Vice President, Supervision Group

**April 27**

5) **Does the US Have Poor Governance in its Housing Policies?**

The goal of inclusion is an objective for the modern State and society due to the economic pressures that have led to stagnation in middle class incomes and exclusion of the poorest from many social goods. Housing constitutes the most important financial sector in the US, with one-third of wealth invested in this “asset”. Housing is also shelter and without shelter, people and families are in public shelters, or moving from place to place. It is a financial asset and it is a vital social good. How can the conflicts in these two dimensions be best resolved?

**Reading:**


**Morning:**

Henry Cisneros, chairman, co-founder, CityView; former Secretary of HUD under President Bill Clinton; the first Hispanic-American mayor of a major U.S. city, San Antonio, Texas. CityView is a property investment firm specializing in multiunit urban housing primarily in western states. Dr. Cisneros will discuss the governance and ethics in public and private community development.

**Afternoon:**

Conclusions and discussion