



Ethics, Business and Wall Street

Steven Kaplan
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University of Chicago Booth School of Business

Intro

- Common sense advice.
 - “Common sense is not so common” Voltaire.
- Examples.

Common sense advice

- Do not do anything illegal.
- Do not do anything that you would not want to see on the front page of the Wall Street Journal.
- Concentrate on fundamentals and substance.
 - CIMITYM.
 - Avoid actions that are cosmetic.

- Most hard decisions – ethical and otherwise – involve tradeoffs.
 - There may be no one answer that is “right” for everyone.
 - » Is it all right for your company to pollute? Fire people?
 - To make those decisions, you have to evaluate the tradeoffs.

- To do so, you should make the decision that makes you better off.
 - I.e., act in your self-interest, but
 - Think very broadly about what your self-interest really is.

- What do I mean by self-interest?
 - Self-interest interpreted very broadly.
 - Need to consider the outcomes of your actions.
 - » Unethical (or illegal) actions may lead to short-term gain; but
 - » almost certainly have negative long-term consequences:
 - actual losses.
 - loss of external reputation.
 - very difficult to put a value on.
 - priceless.
 - loss can be irreversible.
 - loss of internal reputation.
 - can you live with yourself? stress?
 - also, priceless.

- My (unscientific) sense: tendency to underestimate negative long-term consequences / loss of reputation, particularly if you have to make decision quickly.

- Accordingly, very useful to think things through ahead of time.
 - Many times a tough issue arises in real time.
 - » Very easy to react without thinking carefully about consequences. Slippery slope.
 - It is a good idea to try to forecast potential dilemmas / tough issues and think through your actions before they actually arise.

Examples of the Reality of Tradeoffs

- MBA Oath.
- Marriott Spinoff.

THE MBA OATH

- Part 1:
 - “As a manager, my purpose is to serve the greater good by bringing people and resources together to create value that no single individual can create alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term ... As I reconcile the interests of different constituencies, I will face choices that are not easy for me and others.”



■ Therefore I promise:

- “I will act with utmost integrity and pursue my work in an ethical manner.”
 - » Empty.
- “I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate.”
 - » How can you do that?
 - Shareholders want profits (and lower wages) while workers want higher wages.
 - Shareholders want profits (and higher prices) while customers want lower prices.



- Therefore I promise:

- “I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and the societies it serves.”
 - » How can you do that?
 - If you work at one company, do you turn down a fantastic job offer at another company?
 - If you can outsource from the U.S. to India, do you not do that because it harms the U.S. (at least in the short run)?
- “I will strive to create sustainable economic, social, and environmental prosperity worldwide.”
 - » These invariably conflict. How do you assess tradeoffs?

Marriott Spin-off

- In 1992, Marriott proposed splitting itself in two.
 - Marriott kept the hotel contracts and no debt.
 - Host Marriott kept the hotel properties and a lot of debt.

- Issue:
 - Benefits Marriott shareholders, but hurts Marriott bondholders.
 - Takes advantage of loophole in debt contract with bondholders.

- Answers:
 - In favor: fiduciary duty is to shareholders. A contract is a contract.
 - » Board approved.
 - Against: broke implicit promise to bondholders. Will incur damage to reputation that will be costly in future.
 - » One director resigned.

Ethics and the Crisis

- Should you offer someone a mortgage they cannot afford?
 - No?
 - Yes, but only if you tell the borrower they should not take it because they cannot afford it?
 - Yes?

- Should you package mortgage-backed securities that you believe are bad investments and sell them to someone else?
 - No?
 - Yes, but only if you tell the buyer that you believe the mortgages are bad investments?
 - Yes?