

Business Strategies for Solving Social Problems

B8575, Fall
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Business will be a primary contributor to solving the big social problems of the 21st century. While business strategy analyzes competition and markets, firms also pursue *non-market* strategies to influence politicians, and politicians seek to benefit from firms. Governments pursue not only political goals, but often *pro-market* strategies. This course takes a realistic variation on these themes to ask: when do firms, markets, and politics work to resolve the big social challenges of this century. These challenges are the consequences of inequality, corruption, climate change, immigration, and inclusion.

The course is organized around these major challenges, ranging from income equality to immigration to the quality of work life. Our approach is to set out the argument why firms should be engaged in contributing to social and political solutions and more importantly to identifying what can be done.

We do not assume that everyone will agree on a given solution, and it is this diversity in opinion that the course seeks to animate for a positive learning experience. Our intention, as always, is to articulate collectively what the arguments are, so you will be effective leaders of the enterprises and organizations that you will lead in the future. The course provides you with the analytical tools and the aspirations to be leaders in advancing a positive agenda to respond to the challenges of our times.

Conventionally, a course of this content falls in the category of non-market strategies. These are the strategies and actions that firms pursue to achieve goals by influencing states and non-statal organizations (e.g. stakeholders, self-regulating organizations). These actions may include lobbying, partnering with government and non-government organizations, and corruption.

Since big problems will require governments to set up laws, regulations, courts and more extensive policies, this course takes a broad approach. We consider jointly strategies from the perspective of both governments and firms and also sometimes of non-statal actors. Governments too follow pro-market strategies in many ways, such as the design of tax policies, and less subtle ways, such as through the incentives they establish for investment. Sometimes public engagement extends to equity investments.

There are reasons why such actions may be taken, and we will discuss them through the analysis of cases, historical and living. You will be asked to read the cases plus pertinent articles.

This course relies primarily upon the core class in Strategy, as well as on the core classes of Leadership, microeconomics, and the global economic environment. You will find that the course is also designed to leverage other electives, such as the business of climate change and modern political economy.

There are many varieties of how to organize capitalism. We discuss many systems (e.g. the US, Sweden, Germany, France, and China). Obviously, there are others that we will want to discuss. The course will present a way to think about countries as systems and to tease some mild claims of causality about their institutions and economic (or social) outcomes.

Who Should Take this Course?

The course is designed to provide an understanding of the economy and society that recognizes that governments, business, unions and other non-statal organizations pursue their individual success by solving collective problems. The cases, readings, and speakers speak to the merits of market or government or business, as well as to their limits. The class makes the case for thinking innovatively rather than hoping that solutions can be imposed. This then is a class for those who want to consult on policy and strategy, who want to lead or start businesses to solve tough social problems as part of their business strategy, investors who want to invest in large social projects because they are sometimes profitable, and for those socially-engaged who want to understand how markets provide the scale to make a difference.

This is not a course on social enterprise, on how government can mandate solutions you or we want, or on how purpose and mission trump selfishness and greed. It is about social progress.

Why this Course Now?

The great struggles of the mid-twentieth century through-out the world rewrote the national bargains of an earlier generation to create what Germans called the “Social Market Economy”. The post-world wars ushered in experiments that entailed a growth in the State and its intervention in the economy, and a consensus over the value of global cooperation. For many countries, it was a time of growing incomes.

This era collapsed in the 1970s; markets and liberalism returned in favor. Concomitantly, if not causally, over the last few decades, increases in inequality, underfunding of public goods such as education and health, and growth in political instability hearken to the earlier struggles over distribution of wealth and power. Wealthy and poor countries are in political crisis.

Globalization and technical changes pose specific challenges in this environment. This crisis is exacerbated by innovations that replace some kinds of workers by algorithms and disrupt conventional industries, e.g. taxis, hotels, communications. Policymakers are rightfully confused by the levers at their disposal to slow technological advances, should they choose to use them. Deglobalization is an easier lever to pull and the evidence is everywhere that there is popular support for strengthening national borders to hinder immigration and to question commitments to free trade.

This cycle of liberalism to reaction, reaction to liberalism, and now again liberalism to reaction is not accidental. It presents business with a fundamental question:

what should business do?

Assignments:

This course relies heavily on cases and reading material. You are required to come prepared to discuss the case. Missing class must be excused 24 hours ahead of meeting. Sickness and family emergencies are the only accepted excuses compliant with CBS policy.

The course has three written requirements that should be fun and a good learning opportunity:

First assignment begins by joining groups of 4 by the second class. If you cannot find a group, we will assign you. There are 12 class sessions, and the groups should sign up to debate proposal for a business strategy or a kind of tour of existing business strategies for classes 3 to 11. For the class you have chosen, you are required to submit a ppt and a one-page statement of your thoughts and why you took it. More details will be provided later. To be clear, this results in one submitted one page per group.

Two, for the last day of class, you should prepare a proposal of one page on a solution to a problem facing the city of Detroit. You may work in groups of 3 or less. We will select a few groups to present. All papers will be posted. Papers are due the Monday, April 26 before the final class.

Three, for the final exam, you will have a choice. You may write a paper less than 10 pages that analyzes how a firm responded successfully or unsuccessfully to contributing to the improvement of a major social dilemma. Data analysis is especially welcome. You may write the paper alone, or in groups no larger than three, no exceptions. Or you may take a final take-home exam that will be rely upon a case and provided to you.

Grading

If you want to read challenging and important

Grading is based on your class participation for the 12 sessions (25%), the two presentations (25%), and the final paper/final exam (50%). Papers will be randomly selected to be proofed for plagiarism. All citations to data, all quotations, and all substantial reliance on a reference source must be noted. Please take this requirement seriously.

Office hours will be by sign up on-line.

Class Sessions: Cases and Readings

October 24

I. The Coase Theorem and Negative Externalities

1. Inequality in a High-Tech Ecosystem

Case: San Francisco, 2015 #tech #inequality

Assignment Questions:

- 1) What makes for a successful regional innovative economy?
- 2) Are tech firms responsible for pricing people out of their homes?
- 3) Do high-tech firms have an obligation to be part of the solution?
- 4) Is there a justification for city intervention?

Reading: Note: The Coming Revolution: Coase and Inequality

2. Immigration and the Economy

Case: Angela Merkel and 1.1 Million Refugees (new case; in draft and not for dissemination)

Guest Speaker by on-line: Frank Mattern, former head of McKinsey Germany and member of the global management board.

Assignment Questions:

- 1) Are governments and businesses in rich countries obligated to absorb asylum seekers and refugees?
- 2) Should private firms be contracted to design strategies and implement them for the processing of asylum seekers and their asylum claims?
- 3) Would you recommend to a consulting firm today to engage in such contracted advisory and implementation work?
- 4) Are there ways to reduce political risk that firms like McKinsey and Roland Berger faced in the German situation?

Background Reading:

October 31

II. Labor, National Bargains, and Stagnant Wages

1. Property Rights, Law, and Institutions

Case: The National Bargain: The Strikes over Taylorism in Three Countries and the Aftermath of Weimar and Nazi Germany and Post-War Germany (minicase in draft)

Assignment Questions:

- 1) Compare the experiences of workers in three countries in adapting to Taylorism.
- 2) What did Weimar learn from these experiences and fail to learn?
- 3) After the war, Germany adopted a "social market economy". What do you view as the central institutions of this system?
- 4) Elizabeth Warren has recently called for the adoption of "co-determination" on corporate boards. Do you agree with this call?

Note: The Polanyi Cycle of Libertarian and Regulated Capitalism, Bruce Kogut

2. Monopsony Power in Labor Markets

Note: The Treaty of Detroit and Working for Amazon mTurc

Guest speaker: Suresh Naidu, Professor of Economics, Columbia University

Assignment Questions:

- 1) Is the Treaty of Detroit possible today?
- 2) Does the Posner and Weyl vision of property and markets appeal to you? Why?
- 3) When you look at hours worked in professional service firms such as investment banking, consulting, corporate law, etc., do you think unions or some equivalent institution could attract members in these industries?
- 4) Bonus question: Why are many technology founders often libertarian?

Reading:

Eric Posner and Glenn Weyl, 2017, chapter 1, *Radical Markets*.

Background reading:

[Naidu, Suresh, Eric A. Posner, and Glen Weyl. "Antitrust remedies for labor market power." *Harv. L. Rev.*](#)

November 7

III. Finance and Financial Markets

1. Saving Capitalists from themselves

Reading: Adam Tooze, 2018, *Crash*, "The Great Financial Crisis and its Aftermath"

[Dani Rodrik, 2007, *The inescapable trilemma of the world economy*](#)

[Joe Stiglitz on *Detroit bankruptcy and bankers*](#)

Assignment Questions:

- 1) Do you think financial markets should self-regulate?
- 2) Is there a "who" responsible for the financial crisis and were their actions criminal?
- 3) Should the government have broken up the big banks?
- 4) What would like to see for a financial system?

1. Do you think fintech offers an alternative future to the years of consolidation of banking and finance by relatively few competitors?

2. Climate Change

Live Case: Climate Change, NRJ, and Alternatives

Speaker: TBA

Assignment Questions:

- 1) Can a public energy utility migrate to carbon? Would investors prevent this?
- 2) What would they need to do to succeed?

November 14

IV. The State as Capitalist

1. The Entrepreneurial State

Case: The State and the Ventures of Elon Musk and Jeff Bezos (new caselet)

Assignment Questions:

- 1) Are the subsidies to Elon Musk's business "corporate welfare"? Why not?
- 2) Do you think the State should take an equity position to have a return to its investment?
- 3) Is the State (or rather are the states) entrepreneurial to subsidize Musk?
- 4) Should New York City and the state of New York refused from the start to compete in the incentives to attract the Amazon HQ2 investment?

Reading:

Mariana Mazzucatto, 2015, chapter 1, *The Entrepreneurial State*, New York, Perseus Books.

Yuval Levin, 2017, *The Fractured Society*, chapter 5, "The Unbundled Society"

2. The Fractured Societies: Conservative and Liberal

Guest Speakers: TBA

- 1) Can a conservative government be concerned with social justice as a responsibility of the State?
- 2) Or should it place this responsibility back into the hands of employers?

Reading:

Yuval Levin, 2017, *The Fractured Society*, chapter 1, "Blinded by Anxiety"
["The Powell Memorandum: Attack on Free Enterprise System"](#)

Kogut, B., 2017. Book Review Essay: [Economic Sociology as the New Dismal Science](#):
Gerald F. Davis: The Vanishing American Corporation: Navigating the Hazards of a New
Economy, and Yuval Levin: The Fractured Republic: Renewing America's Social Contract
in the Age of Individualism.

Background reading:

["The Legend of the Powell Memo"](#)

November 21

The Social Economy

1. Measuring the Social Economy

Caselet: Shanghai, Bhutan, and Social Value

Note: The Fitoussi Report (TBD)

Reading: [Hooray for GDP](#)

Assignment Questions:

- 1) Isn't measuring the social economy happiness a leftist trick to encourage social investments?
- 2) What would you want to add or take away if you should take a conservative perspective?
- 3) If we all work, why not charge fees for services and let people decide their value to them?
- 4) Is a happy state a State Capitalist?

Reading:

[Dani Rodrik, 2007, The inescapable trilemma of the world economy](#)

2. Meaningful Work for a Gender-Neutral Society

Note: The Gender Wage Gap, Family, and Nordic policies

Guest speaker: Ann Bartel, Professor of Economics at CBS

Assignment Questions:

- 1) Is gender equality possible without providing equality in the home?
- 2) Should the welfare state then also require gender diversity in the private corporation, e.g. establishing quotas on boards?

Reading :

Bartel, Ann P., Maya Rossin-Slater, Christopher J. Ruhm, Jenna Stearns, and Jane Waldfogel. "Paid family leave, fathers' leave-taking, and leave-sharing in dual-earner households." *Journal of Policy Analysis and Management*

Background Reading:

Fleckenstein, T., & Lee, S. C. (2014). The politics of postindustrial social policy: family policy reforms in Britain, Germany, South Korea, and Sweden. *Comparative Political Studies*, 47(4), 601-630.

Goldin, Claudia, 2014, "A Grand Gender Convergence: Its Last Chapter", *American Economic Review*

Goldin, Claudia, and Lawrence F. Katz. 2016. "A Most Egalitarian Profession: Pharmacy and the Evolution of a Family-Friendly Occupation." *Journal of Labor Economics*.

December 5

VI: Alternative Visions

1. Special Session: 9:00 – 10:00

Guest Speaker: Henry Cisneros, former mayor San Antonio, Secretary of Housing and Urban Development, former President and Chairman of Univision, and currently partner in the minority owned investment banking firm Siebert Cisneros Shank & Co

2. Brief Presentations (see below)
3. Summary and Evaluation

Presentation for final class

You may choose to submit a one slide ppt on one of two topics shown below. We will select 4 to be presented in the final class, 10 minutes each.

Choice 1:

Propose a business strategy to solve a social problem.

(And read also the case on Detroit Bikes: Becoming the Biggest Bicycle Manufacturer)

Choice 2:

Case : Detroit Bikes: Becoming the Biggest Bicycle Manufacturer in North America

Assignment Questions:

- 1) Why should Detroit Bikes succeed in Detroit where more powerful auto firms failed?

Readings:

[*The Ford Foundation's Quest to Fix the World | The New Yorker*](#)

[*Joe Stiglitz on Detroit bankruptcy and bankers*](#)

Background Readings:

Sugrue, T.J., 2014, "Conclusions", *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit-Updated Edition*, Princeton University Press.