Business Strategies and Solving Social Problems

FOR BIDDING PURPOSES ONLY

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TA:

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, politics, and civil society work to resolve the big social challenges of this century. These challenges are the consequences of inequality, corruption, climate change, immigration, and exclusion.

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 libertarianism 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 libertarianism to reaction, reaction to libertarianism, and now again libertarianism to reaction is not accidental. It presents business with a fundamental question:

what should business
do?

Attendance and 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. We follow the CBS policy regarding what constitutes an excusable absence.

The course has two written requirements, two quizzes, and a final exam:

For the first assignment, we will assign you to groups of 4 to prepare for the second class on the Canyon Johnson Urban Fund case. Each group will analyze the data in the case and give their advice as to which project should be taken. The assignment will be submitted by 9 am in the morning October 28th, no exceptions. The expected product is a one-page recommendation; the second page is a worksheet exported into a pdf. (Make sure all names are on the document.)

For the second assignment due for the last day of class, you should prepare a one-page proposal and one-slide power point that proposes a business strategy to solve a social problem. *Please do not propose a solution imposed by the government or by a firm through its internal corporate policies; we are looking for strategies that solve a problem through market engagements with governments and civil society.* We will select a few groups to present. All papers will be posted. Material is due the Wednesday, December 9th by 9 AM.

Quizzes: There will be two quizzes to inspire you to learn the fundamental material.

Final exam. There will be a final take-home exam that will rely upon a case. You will download the case and questions on a day of your choice during the first 5 days of exam week. You will have 8 hours to answer (but will need far less time). All work is individual.

Extra: There are 12 sessions. We look occasionally for groups to volunteer to explain a reading or debate. For the session you have chosen, you are asked to submit a ppt of 2 to 3 slides max. The first opportunity will be for class 4, November 9; the next is December 2.

Grading

Grading is based on your class participation for the 12 sessions (30%), the two presentations/write-ups (25%), the final paper/final exam (35%), and the two quizzes (10%). Written work 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.

Office hours: I welcome meeting with you on-line and will post days and hours.

Class Sessions: Cases and Readings

October 26 (Markets and the State)

Emergency Powers of the State: What Role for Markets?

Case: The Vaccine and Covid-19: Waiting For Godot (Kogut and Dell'Acqua)

Reading:

Public-Private Partnerships in California, Bay Area Council. Economic Institute, August 2018.

Assignment Questions

1. Do Pharma firms have an obligation to be part of the solution?
2. Should the government set prices by which to purchase vaccines?
3. Is there a justification for political policy intervention including investing in companies?
4. Are there are other solutions?

October 28

Urban Development and Government Incentives

Case: Canyon Johnson Urban Fund

Assignment Questions

1. What are Canyon Johnson's internal rates of return for the Hollywood and Sunset projects? (CJUF think they can obtain debt financing of 5% for 25 years. In your analysis, ignore the option for partial ownership of the hotel.)
2. Which project should Turner choose?

Written Assignment: Please complete your answers on-line by October 26, 9:00 PM. You will be asked to register your groups by 9 a.m. on October 25; if you have not, we will assign you to groups randomly.

Reading:

Battle of Carnegie Hill, The New York Metro.

Reading (suggested)

Glaeser, E.L., Gyourko, J. and Saks, R., 2005. Why is Manhattan so expensive? Regulation and the rise in housing prices. *The Journal of Law and Economics*, *48*(2), pp.331-369.

November 4

Immigration, Civil Society and the Limits of Business

Case: Angela Merkel and 1.1 Million Refugees (Kogut and Dell'Acqua)

Guest Speaker: **Frank Mattern**, Chairman of the Strategic Advisory Board; 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:

The Economist, August 25, 2020, Five years after arrival, Germany's refugees are integrating

New York Times, September 5, 2019, South African Riots Over 'Xenophobia' Prompt Backlash Across Africa

"Europe's New Refugees: A Road Map For Better Integration Outcomes", McKinsey Global Institute, December 2016

New York Times, July 19, 2019, Trump's Immigration Approach Isn't New: Europe and Australia Went First

November 9 (Markets and Labor)

Labor, National Bargains, and Stagnant Wages

Historical Note: The National Bargain: The Strikes over Taylorism in Three Countries and the Aftermath of Weimar and Nazi Germany and Post-War Germany Assignment, Bruce Kogut

Note: The Treaty of Detroit, excerpted parts, from Mark Mizruchi.

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 had called for the adoption of "co-determination" on corporate boards. Do you agree with this call?

For Next Class: Volunteer group to explain "Radical Markets" reading

November 11 (Markets and Labor)

The Future of Work: Wages, Monopsony, and Artificial Intelligence (Friend or foe)

Assignment Questions:

1) Does the Posner and Weyl vision of property and markets appeal to you? Why?
2) 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?
3) Bonus question: Why are technology founders often libertarian?

Reading:

Eric Posner and Glenn Weyl, 2017, Introduction, *Radical Markets*.

David Autor, "Work of the past, work of the future", Vox Eu, March 19, 2019.

Tyler Cowen, 2019, *Big Business. A Love Letter to an American Anti-Hero*, Chapter 5, "How Monopolistic is American Big Business?"

Background reading:

Naidu, Suresh, Eric A. Posner, and Glen Weyl. "Antitrust remedies for labor market power." Harv. L. Rev.

November 16 (Markets, Society, and Firms)

Should Firms Care More than About Shareholder Returns?

Note: Bruce Kogut, *Coase and Private Ordering (in progress)*

Readings:

Milton Friedman, 1970, "The Social Business of Business is to Increase its Profits", *New York Times Magazine.*

Oliver Hart and Luigi Zingales, 2018, *Serving Shareholders Doesn't Mean Putting Profit Above All Else* , *Harvard Business Review*

Background reading (short and recommended):
"The Legend of the Powell Memo"

November 18 (Non-Market Strategies of Firms)

The Entrepreneurial State

Case: What Drives Musk? (Kogut and Dell'Acqua)

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 have refused from the start to compete in the incentives to attract the Amazon HQ2 investment?

Reading:

Note: A Short-short Primer on Non-market Strategies (in progress)

Mariana Mazzucato, 2015, chapter 2, *The Entrepreneurial State*, New York, Perseus Books.

Luigi Zingales, A Capitalism for the People, Chapter 11, "Limits to Lobbying"

November 23 (Non-market Strategies and Ideological Debates)

The Fractured Societies: Conservative and Liberal Policies

Caselet: Bidding to Pay Amazon's Rent with Data on Amazon's HQ2, (Kogut and Dell'Acqua)

Assignment Preparation Questions:

1) Can a conservative government treat social justice as a responsibility of the State?

2) Or should it place this responsibility into the hands of employers, markets, and society?

3) Review the Amazon caselet, analyze the data, and come ready to discuss.

Reading:

Yuval Levin, 2017, *The Fractured Republic*, chapter 1, "Blinded by Anxiety"

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.

Luigi Zingales, A Capitalism for the People, Chapter 10, "The need for a market-based ethics", New York: Basic Books, 2012.

November 30 (The Social Economy)

Measuring the Social Economy

Reading:

OECD, "How's Life, Executive Summary", website, 2020. (2 pages)

Nicholas Oulton, Hooray for GDP! GDP as a measure of wellbeing , VOX EU, December 2012.

Fun exercise: look up here and choose two countries of similar incomes and jot down some thoughts why their well-being differ.

Highly Recommended:

Antony Bugg-Levine, Bruce Kogut, Nalin Kulatilaka, A New Approach to Funding Social Enterprises, Harvard Business Review, January 2012

Cohen, Ronald, and George Serafeim. "How to Measure a Company's Real Impact." Harvard Business Review (website) (September 3, 2020).

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?

For Next Class: Volunteer group to discuss "Egalitarian Profession" reading.

December 2 (Markets and Fairness)

Meaningful Work for a Gender-Neutral Society

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

Reading:

Goldin, Claudia. "A grand gender convergence: Its last chapter." American Economic Review 104.4 (2014): 1091-1119.

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?

Background Reading:

Goldin, C. and Katz, L.F., 2016. A most egalitarian profession: pharmacy and the evolution of a family-friendly occupation. Journal of Labor Economics, 34(3), pp.705-746.

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

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.

December 7 (Non-Market Strategy in Practice)

Guest Speaker: Donnel Baird, CEO, BlocPower

Case: BlocPower: Energizing Urban Neighborhoods, (Bruce Kogut and John Walker)

Recommended Reading:

BlocPower + Goldman Sachs

BlocPower + Kapor Capital Impact Report

BlocPower Is Bringing Solar To NYC's Most Distressed Neighborhood

A Note on MLK, Clean Energy, and American Inner Cities

December 9 (Wrapping-up)

Presentations (see details under Attendance and Assignments)

By 9 pm on December 8th, every group will submit a one-page proposal, and one slide ppt on the assignment. We will select 2 to be presented in the final class, 10 minutes each.

Final comments.

What is a Just and Free Society?

Evaluations.