

**BUSINESS AND SOCIETY:
RECONCILING SHAREHOLDER AND STAKEHOLDER INTERESTS**

BUSI B8784
Spring 2022 (B-Term)
Geffen Hall, Room 590
W 2:00-5:15PM ET

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Course Teaching Partners
Kravis Hall, Room 572
Office Hours: By Appointment

COURSE DESCRIPTION

Business School offers important windows into the functions of business and into ways of conceptualizing challenges and opportunities. It also offers valuable cross-cutting tools for analysis, decisions, and leadership. *But there's more...*: Very successful and admired business leaders think even more fundamentally and broadly about the economic, political, and social context of business decisionmaking. They understand that the 'corporation' is a legal and social construct. Support for business corporations has not been and is not absolute and requires business leaders to examine the role of their business and business generally into the broader society — *business and society*. In contemporary language, what is the 'purpose' of business? For whom should the corporation be run? Answers to these questions and others shape business, business careers, and attitudes toward business.

Addressing such cross-cutting questions requires that we examine the business corporation and its role in society through multiple perspectives. In particular, we will study business and society through the lenses of the evolving business organization, finance and investors, employees, corporate governance, privacy and big data, social movements, social justice, and climate change. To accomplish these views, we will draw on leading CBS *faculty* and their ideas. In each case, we will complement these ideas with the experience of leading *business practitioners* as teaching partners. The introductory and closing sessions will feature longer conversations with a business leader on the role of business in society. Conducting the course in this way brings both 'business and society' and Columbia Business School's 'ideas, talent, and network' to center stage.

You will also be co-creating this course with the teaching team. Your presence, preparation, and participation are vital to a successful class experience. The syllabus presents questions and readings to get you ready for our class discussion and analysis.

The team and I look forward to working with you!

COURSE ADMINISTRATION

Teaching and Course Team: Glenn Hubbard serves as course leader and will lead the introduction, corporate governance, and closing discussions. Other teaching team members are Kent Daniel (Finance), Wei Jiang (Finance), Ann Bartel (Economics), Dan Wang (Management), Gita Johar (Marketing), Omar Besbes (Decision, Risk, and Operations), and Geoff Heal (Climate Change). The teaching assistant is Mike Simpson (MSimpson22@gsb.columbia.edu).

Course Materials. There is no textbook required. The class readings, and class slides are posted on the class website on Canvas.

Grading. The course grade will be determined based on participation in class and Canvas discussions (50 percent) and a course paper (50 percent) to be agreed upon with a faculty sponsor in the class.

Connection to the Core Curriculum. The course offers a cross-cutting view of business and society, building on multiple disciplines within the School. In particular, topics in Microeconomics, Global Economic Environment, Corporate Finance, Strategy Formulation, and Business Analytics are woven in the course fabric.

COURSE SYLLABUS AND CALENDAR

Introduction

1A. *March 23: Introduction (Glenn Hubbard)*

To organize our thoughts for the term, we begin with a framework, analyzing boundaries among firms, markets, and the state. We will draw on economic ideas about markets, stakeholder participation, agency costs, and corporate governance. With this background, we will introduce constituents around the corporation, including finance and investors, employees, corporate governance mechanisms, social movements, social justice, privacy and big data, and change.

- *Questions: What is the economic purpose of the corporation? Roles of social context and objectives in business decisionmaking?*
- *Readings: Michael Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," Journal of Financial Economics, October 1976. Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," New York Times Sunday Magazine, September 13, 1970. Martin Lipton, The New Paradigm.*

1B. *March 23: Conversation with Russell Carson (Glenn Hubbard)*

Private equity legend and philanthropist Russ Carson will join us to discuss the evolution of business and society from a business leader's perspective and the role private equity has played in that evolution. We will also talk with him about roles of business, nonprofits, and government in addressing social challenges.

- *Question: How does/should a business leader manage competing stakeholder interests?*

Stakeholders: Investors

2A. March 30: Finance and Society (Kent Daniel)

- *Questions: What financial activities are socially desirable? How should financial leaders consider social costs or social consequences of their action?*
- *Readings: [TBD]*

2B. March 30: Investment and Valuation (Wei Jiang)

Finance students have been taught that the value of a security (or an enterprise) is the discounted future cash flows. Hence one can affect valuation by either changing cash flows and/or the discount rate. When financial investors desire long-term value, where "value" could potentially include both financial and social values, how are securities priced and to what extent can investors actually shape such values? There are many disagreements among researchers and practitioners here. We will have a candid and nuanced discussion of them.

- *Question: Can financial investors promote long-term value?*
- *Readings: The Secret Diary of a 'Sustainable Investor,' by Tariq Fancy, Part I: <https://medium.com/@sosoofancy/the-secret-diary-of-a-sustainable-investor-part-1-70b6987fa139> Part II: <https://medium.com/@sosoofancy/the-secret-diary-of-a-sustainable-investor-part-2-831a25cb642d>. Investing for Good, by Tom Gosling <https://www.tom-gosling.com/blog/investing-for-good>. Is Sustainable Investing Really a Dangerous Placebo? By Alex Edmans <https://medium.com/@alex.edmans/is-sustainable-investing-really-a-dangerous-placebo-70d4767864db>*

Stakeholders: Employees and Governance

3A. April 6: Employees (Ann Bartel)

Andy Stern, president emeritus of the Service Employees International Union, will join us for the conversation.

- *Questions: How can companies retain talent in today's competitive labor market? What are the insights from the "efficiency wage" theory? Should large companies be required to allocate a certain percentage of the seats on their boards to worker-elected representatives?*
- *Readings: "How Higher Wages Can Increase Profits", Ray Fisman and Michael Luca, Wall Street Journal, January 21, 2021. "Why Good Jobs are Good for Retailers", Zeynep Ton, HBR, January-February 2012. "Companies Cite Missions, Changing Tone of IPOs", Corrie Driebusch, Wall Street Journal, September 9, 2021. "How Corporate Governance Codetermination Works in Practice," Grant Hayden and Matthew Bodie, The CLS Blue Sky Blog, June 3, 2021.*

3B. *April 6: Corporate Governance (Glenn Hubbard)*

For whom should the corporation be run? Shareholders? Some shareholders? Stakeholders? The broader public interest? We will define corporate governance, then present traditional arguments for shareholder value maximization and more recent specific stakeholder proposals. Long-term shareholder value maximization is consistent with broader stakeholder concerns under many assumptions, though not all. We will discuss tensions that then arise. Rusty O'Kelley, the co-leader of the Board and CEO Advisory Partners practice at Russell Reynolds, will join us for this conversation.

- *Questions: For whom is the corporation governed? Historical and legal contexts? Does governance matter for firm results?*
- *Readings: Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," New York Times Sunday Magazine, September 13, 1970. Martin Lipton, The New Paradigm. Sanjai Bhagat and Glenn Hubbard, "Should the Modern Corporation Maximize Shareholder Value?," American Enterprise Institute, 2020.*

Business and Social Movements

4A. *April 13: Aligning with Social Movements (Dan Wang)*

Social movements — that is sustained public campaigns of protest about a social or political issue — often surface concerns that business leaders are pressured to respond to. From Black Lives Matter to the Sunrise Movement, what are the risks and benefits of conveying ideological alignment or misalignment with a vocal social movement? How can business leaders include social activists in their executive decision-making? This session will offer students frameworks for interpreting the signals of social movement while reviewing evidence about how social movements have shaped business practices and stakeholder alignment in recent history. Guest panelist(s) to be announced.

- *Question: Which stakeholders should business leaders prioritize — shareholders, employees, investors, customers, or community members — when responding to social movements?*
- *Readings:*
 - *Required: Satell, Greg and Srdja Popovic, “How Protests Become Successful Social Movements,” 2017, Harvard Business Review, January 27, 2017. Zheng, Lily, “We’re Entering the Age of Corporate Social Justice,” 2020, Harvard Business Review, June 15, 2020. Toffel, Michael A., Aaron Chatterji, and Julia Kelley, 2017, “CEO Activism (A),” Harvard Business Publishing.*
 - *Optional: Soule, Sarah A., 2012, “Social movements and markets, industries, and firms,” Organization Studies, 33(12), pp.1715-1733. Davis, Gerald and Eun Woon Kim, 2021, “Social Movements and Organizational Change,” In: The Oxford Handbook of Change and Innovation (Marshall Scott Poole and Andrew Van de Ven, Eds.), pp. 209-229.*

4B. April 13: Social Justice (Gita Johar)

What can, and what should, corporations do to effectively and authentically support social justice? What are the key social justice issues that business leaders need to engage in, and what are the forces urging them to act on these issues? How should business leaders balance the competing viewpoints on the meaning of social justice from different segments of customers and from employees who span different generations? We will discuss the moral imperative for businesses to act as well as the ways in which such action can backfire and damage brand reputations by being perceived by some as not going far enough and by others, as going too far. At the heart of the matter is the question of who gets to drive the agenda on corporate engagement with social justice issues. We will consider historical cases of active corporate involvement in social justice issues that have been successful as well as those that have failed, and draw lessons for why, when, and how business leaders should publicly engage on these issues.

- *Questions: What is a business leader’s role in addressing inequality, racism, and inclusion? Why, when, and how should they take a public stand on social justice issues in the face of potential backlash?*
- *Readings: Paul Polman and Andrew Winston, “The Net Positive Manifesto,” Harvard Business Review, October-November 2021, Geeta Menon and Tina Kiesler, “When a Brand Stands up for Social Justice, Do People Buy it?,” Harvard Business Review, July 2020, Ben Cohen and Jerry Greenfield, “We’re Ben and Jerry. Men of Ice Cream, Men of Principle,” New York Times, July 28, 2021. Watch Trevor Noah interview Anand Giriharidas on his book “Winners take All,” [here](#).*

Social Threats

5A. April 20: Privacy, Big Data, and Technology Firms (Omar Besbes)

We have witnessed significant developments in the digital economy in the past decade. The potential of digital technologies and Artificial Intelligence (AI) solutions is significant. At the same time, these solutions have also brought to the foreground a host of new challenges for organizations in terms of responsibilities, ethics, and risks. We will discuss the new and future trade-offs organizations will face around privacy, but also AI bias, scalability, and transparency.

- *Questions: What is business' responsibility toward individual data and its use or misuse? What are a business' responsibilities and risks when deploying AI solutions?*
- *Readings: AI Regulation is Coming, HBR 2021, Candelon, Charme di Carlo, De Bondt, Evgeniou*

Optional: The age of AI, and our human future. Kissinger, Schmidt and Huttenlocher.

5B. April 20: Climate Change (Geoff Heal)

External effects lie at the heart of the economics of climate change: how can society best tackle a global external effect on the scale of climate change? Traditional economic responses are to use a carbon tax or a cap-and-trade system. Both are politically difficult in the United States, so that we need to evaluate second-best policies. These may include subsidies to renewable energy, electric vehicles, and so on. There may actually be good economic reasons for these subsidies, associated with the public good nature of research and development. Regulations, such as the CAFÉ standards and Renewable Portfolio Standards, are also options here.

- *Questions: In this context, what are the corporation's responsibilities and where does its long-run interest lie? We will consider the reactions of a range of different companies ranging from oil and gas companies to utilities and financial institutions.*
- *Readings: [TBD]*

Bringing It All Together

6A. April 27: Business Leader Conversation (Glenn Hubbard and TBD)

The issues we have discussed in the course ranging from corporate purpose to finance and society to perspectives of investors, employees, and corporate

governance to social movements and social justice to privacy and big data to climate change are critical items on the agendas of researchers and policymakers. But they are also critical issues facing business leaders – facing *you*. One of our main themes in the class is that these issues are interconnected in business problems, ranging from corporate reputation to investment decisions to measuring success. We will have a wide-ranging discussion of these themes, with a nod toward to today’s events and take your questions.

- *Questions: How should business leaders approach the role of business in society? Individually? Collectively?*
- *Readings: Framework for Inclusive Capitalism, <https://www.coalitionforinclusivecapitalism.com>*

6B. *April 27: Roundtable Discussion (Faculty and Students)*

Your faculty teaching team looks forward to a conversation with you on ideas, challenges, and opportunities, and business actions. Some questions on our mind: Can finance be good for society and be very profitable? What should investors expect of corporations? How effective will investor pushes for action be in achieving business or social objectives? Are workers getting their fair share of capitalism’s gains? How should business leaders approach this question? What social movements have had the biggest impact on business practice and business reputation over the past decade? Which movements are likely to have the most significant impact over the next decade? Is business on the right side of key social justice questions? Should boards and top executives have social justice in mind in running the corporation? Do we need different governance and regulation for big tech firms? Combatting effects of climate change, a classic externality problem, requires policy action. In a time of dysfunctional government responses, what can and should business do? Putting it all together, what’s your ‘elevator pitch’ for the role of business in society? *We particularly look forward to your questions and comments.*

- *Questions: Application to current events? Application to business education? Role of business schools in society?*
- *Readings: [TBD]*