Business Strategies and Solving Social Problems

FOR BIDDING PURPOSES ONLY

B8575, Fall
Thursday, 2:15-5:30

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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 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?
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. There are 12 sessions (2 per class-day), and the groups should sign up to explain a reading or debate existing business strategies for classes 3 to 11. For the session you have chosen, you are required to submit a ppt and a one-page statement of your thoughts and why you took a position. To be clear, this results in one-submitted one-page write-up plus a short (one or two slides) ppt per group.

Two, for the last day of class, you should prepare a proposal of one page as described below. You may work in your groups of 4. We will select a few groups to present. All papers will be posted. Papers are due the Thursday, December 4th before the final class.

Three, there will be a final take-home exam that will rely upon a case.

Grading

Grading is based on your class participation for the 12 sessions (30%), the two presentations/write-ups (30%), and the final paper/final exam (40%). 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  (Private-ordering in Markets and State Intervention)

  I.  The Price of Soup and Property

   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 political policy intervention?

Reading Note: The Coming Revolution: Coase, Externalities, and Inequality, Bruce Kogut (in process)

Reading (suggested)


2. Urban Development

Case: Canyon Johnson Urban Fund

Assignment Questions

1. What are Canyon Johnson's internal rates of return for the Hollywood and Sunset projects? (CIUF 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?

Reading:

Battle of Carnegie Hill, The New York Metro,

Readings (suggested):


October 31 (Markets and Labor)

II. Labor, National Bargains, and Stagnant Wages
1. Property Rights, Law, and Institutions

Case: The Flint, Michigan Sit-down Strike

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 (draft available)

Note: The Treaty of Detroit

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?

Interlude:

Volunteer group to explain “Radical Markets” reading.

2. Monopsony Power in Labor Markets

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

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:

III. Libertarian Solutions

1. Should Firms Care More than About Shareholder Returns?

Reading:

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

2. Immigration and the Limits of Business

Case: Angela Merkel and 1.1 Million Refugees

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


Background reading:

For an international perspective on the dilemma of politics and economics:
Dani Rodrik, 2007, The inescapable trilemma of the world economy

November 14

IV. The State as Capitalist

1. The Entrepreneurial State

Case: What Drives Musk?

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:


Interlude:
Compare the Mazzucato and Levin readings regarding the arguments for the role of the state

2. The Fractured Societies: Conservative and Liberal

Caselet: Bidding to Pay Amazon’s Rent
Data on Amazon’s HQ2

Assignment Preparation Questions:
1) Can a conservative government treat social justice as a responsibility of the State?

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

Reading:

Yuval Levin, 2017, _The Fractured Republic_, chapter 1, “Blinded by Anxiety”


Luigi Zingales, A Capitalism for the People, Chapter 10, “The need for a market-based ethics”

Background reading (short and recommended):
“_The Legend of the Powell Memo_”

November 21

V. The Social Economy (Society and the Firm)

1. Measuring the Social Economy

Case: Shanghai: GDP Apostasy by George Serafeim, Rebecca M. Henderson, David Freiberg

Reading: Hooray for GDP

_A New Approach to Funding Social Enterprises_ by Antony Bugg-Levine, Bruce Kogut, Nalin Kulatilaka

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?

2. Meaningful Work for a Gender-Neutral Society

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

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:


Background Reading:


December 4

VI: Alternative Visions

Special Session: December 4, 5:45-7:15

Guest Speaker: Donnel Baird, CEO, BlocPower
December 5

(Continued -Alternative Visions)

2. Brief Presentations (see below)

3. Summary and Evaluation

Presentation for final class

You may choose to submit a one page proposal, and 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: Choose a social problem that someone should solve

Choice 2: Propose a business strategy to solve a social problem.

Please do not propose a solution imposed by the government or by a firm through its corporate policies.