BUSINESS AND SOCIETY:
RECONCILING SHAREHOLDER AND STAKEHOLDER INTERESTS

BUSI B8784	**Glenn Hubbard**
Spring 2023 (B-Term)	**Course Teaching Partners**
Geffen Hall, Room 590	**Kravis Hall, Room 572**
W 2:00-5:15PM ET	**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 decision making. They understand that the 'corporation' is a legal and social construct, not just an economic 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 in 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.

All of us on the teaching team 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, on the 'Good Finance'), Ann Bartel (Economics, on a Worker Perspective), Dan Wang (Management, on Social Movements), Gita Johar (Marketing, on Social Justice), Omar Besbes (Decision, Risk, and Operations, on Big Data), and Geoff Heal (Economics, on 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. *Course papers (of 2500 words) may be done in groups of two people: Your final paper should have a clear hypothesis and framework, offer why your hypothesis might be incorrect, and display clear writing with any sources denoted. Paper prompts from which you can choose are given in each section below. You should seek approval for your chosen topic from one of us by April 12.* ***Final papers are due by 9:00AM on Monday, May 1.***

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 22: 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 decision making?*
- *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; and Martin Lipton, The New Paradigm.

1B. March 22: Conversation with Russell Carson (Glenn Hubbard)

Private equity legend (co-founder of Welsh, Carson, Anderson & Stowe) 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: Employees and Governance

2A. March 29: Employees (Ann Bartel)

This session will discuss the challenges that companies are facing today in thinking about how to balance shareholder value against employee stakeholder value. We will consider whether greater attention to employee stakeholder value can also enhance shareholder value. When might it make sense for companies to pay above-market wages and what have been the experiences of companies that have tried this strategy? In the context of a highly competitive market for talent, what can a company do to attract and retain talent? Some commentators argue that there is a power imbalance between employers and workers and that this could be rectified by mandating companies to allocate a percentage of the seats on their boards to worker-elected representatives, called codetermination. We will examine the research evidence on the economic impacts of codetermination in Europe. TBD will join us for this 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: Ray Fisman and Michael Luca, "How Higher Wages Can Increase Profits," Wall Street Journal, January 21, 2021; Corrie Driebusch, "For Allbirds, Warby Parker, Other Fall IPOs, Greed Is Out. Do-Gooding Is In.," Wall Street Journal, September 8, 2021; Grant Hayden and Matthew Bodie, "How Corporate Governance Codetermination Works in Practice," The Columbia Law School Blue Sky Blog, June 3, 2021; Rebecca Henderson, "What Would It Take to Get Businesses to Focus Less on Shareholder Value?," Harvard Business Review, August 21, 2018.*
- *Possible Final Paper Prompts:*

- *Select three companies that operate in the same sector (e.g., Financial Services, Media/Tech, Retail, Manufacturing, etc.) and compare how, if at all, these companies have paid attention to their employee stakeholders. Provide evidence on the impact of these strategies on shareholder value. Is there evidence of a tradeoff between employee stakeholder value and shareholder stakeholder value?*

- *Compare the attributes of the various co-determination systems that are currently in use throughout the world. Which system is most likely to be successful in the U.S. and why?*

2B. March 29: Good Finance (Kent Daniel)

A financial transaction is an exchange that is presumably freely entered into by two parties, often between a financial firm and its clients. To what extent should a financial firm restrict the products it offers to its clients? Regulation imposes some restrictions, depending on the setting. For a hedge fund selling shares of a complex financial product to another sophisticated financial firm, the doctrine of *caveat emptor* ("buyer beware") applies. In contrast, a brokerage firm that brokers the sale of a financial instrument to an individual is required to confirm the suitability of an investment. Even more stringent requirements govern the interactions of financial advisors, who have a *fiduciary duty* to these clients, requiring them to always act in the best interests of the client.

However, financial firms must pay special attention to the expectations of their clients: a client may assume that a financial firm has a fiduciary duty when the law does not require this obligation. How should the firm behave in such a situation? How does it trade off the obligation to its shareholders to maximize profits with the obligation to its clients or to other stakeholders? Has access to some recent financial innovations (such as microfinance, no-doc loans, payday lending, cryptocurrencies, or trading through Robinhood) harmed the clients of financial firms? Finally, what special responsibilities do large, "too-big-to-fail" financial firms have to society as a whole? James Gorman, CEO of Morgan Stanley will join us for this conversation.

- *Questions: What financial activities are socially desirable? How should financial leaders consider social costs or social consequences of their action?*
- *Readings: Raghuram Rajan and Luigi Zingales, Saving Capitalism from the Capitalists, Chapter 3, "The Financial Revolution and Individual Economic Freedom" and Chapter 4, "The Dark Side of Finance"; and Robert Shiller, Finance and the Good Society, "Introduction: Finance, Stewardship, and Our Goals" and "Epilogue: Finance, Power, and Human Values."*
- *Possible Final Paper Prompts: Give examples in several business areas and products that illustrate the interaction of these forces. Finally, discuss how*

business leaders should think about responding to and potentially shaping these forces by lobbying government and regulatory agencies.

- *Many financial innovations (e.g., microfinance, no-doc loans, payday lending, cryptocurrencies, the introduction of sophisticated derivative securities, zero cost trading,…) have both costs and benefits for society. Based on the course readings and discussions, please lay out a rudimentary framework for categorizing and analyzing the costs and benefits to different members of society of a new financial product. Based on this framework, analyze a set of 3-4 financial products. Based on the framework you developed, discuss:*
  - *Should financial firms be allowed to sell such products?*
  - *if you were running a startup, would you be willing to introduce a product in this space? How would you structure such a product offering to effectively compete with others in the space?*
  - *If you were Morgan Stanley, would you be willing to introduce a product in this space? How would you structure such a product offering to effectively compete with others in the space?*
- *Competition, regulation, and threat of legal action are all potentially important in helping ensure that the products of financial firms benefit their clients. As you saw in the discussion in the April 6 class, Milton Friedman believed that competition was of paramount importance. Discuss how these three forces, and any others that you identify, help to align the interests of financial firms and their customers, and how they can fail to achieve societal objectives. For example:*
  - *firms may compete not on the dimension of price, but rather by building barriers to entry, or by constructing appealing but misleading new products.*
  - *excessive regulation may deter entry by new startups, resulting in lower competition and higher overall fees.*

Stakeholders: Investors

3A. April 5: Investment and Valuation (Glenn Hubbard)

Students are taught in Finance 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 components, 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. Kim Lew, the Chief Investment Officer of the Columbia University Investment Management Corporation, will join us for this conversation.

- *Question: Can financial investors promote long-term value?*
- *Readings: Tariq Fancy, The Secret Diary of a 'Sustainable Investor,' Part I: https://medium.com/@sosofancy/the-secret-diary-of-a-sustainable-investor-part-1-70b6987fa139, Part II: https://medium.com/@sosofancy/the-secret-diary-of-a-sustainable-investor-part-2-831a25cb642d; Tom Gosling, Investing for Good; https://www.tom-gosling.com/blog/investing-for-good; and Alex Edmans, Is Sustainable Investing Really a Dangerous Placebo? https://medium.com/@alex.edmans/is-sustainable-investing-really-a-dangerous-placebo-70d4767864db*
- *Possible Final Paper Prompts: Please read the following article (and you are welcome to search for and read related articles): Little Engine No. 1 beat Exxon with just $12.5 mln - sources.*
    - *Your essay should directly address the following questions:*
        - *How can Engine No. 1 win a contested board election with a 0.02 percent holding in Exxon Mobil?*
        - *Engine No. 1 spent $12.5 million in solicitations and other costs related to the proxy contest. How can a new and relatively small investment fund justify such an expenditure for the public good which, presumably, accrues to the society at large?*
        - *Is there a business proposition (i.e., financial returns from investment) for Engine No. 1 to launch shareholder activism to advance a social goal?*
        - *How is Engine No. 1's approach different from the divestment movement (i.e., socially conscientious investors refrain from investing in business built on fossil fuels)?*

Suppose you are the sponsor of a pension fund for school teachers, which means you bear a fiduciary duty to make a best effort to provide investment returns and financial security to the teachers in the plan. Would you invest in a fund like Engine No. 1? Would you support a fund that manages your plan money to deviate from the objective of maximizing risk-adjusted investment returns in order to pursue social goals?

3B. April 5: 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; and Sanjai Bhagat and Glenn Hubbard, "Should the Modern Corporation Maximize Shareholder Value?," American Enterprise Institute, 2020.*
- *Possible Final Paper Prompts:*
    - *Defend/critique — The board should maximize long-term shareholder value.*
    - *Defend/critique — Board members should bring to bear stakeholder and social concerns in corporate decision making.*
    - *Defend/critique — Board members should hold management accountable for stakeholder metrics.*

Social Threats

4A. April 12: 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. TBD will join us for this conversation.

- *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:*
    - *Required: Francois Candelon, Rodolphe Charme di Carlo, Midas De Bondt, and Theodoros Evgeniou, AI Regulation is Coming, Harvard Business Review, October 2021.*
    - *Optional: Henry Kissinger, Eric Schmidt, and Daniel Huttenlocher, The Age of AI: And Our Human Future, Hachette, 2021.*
- *Possible Final Paper Prompts:*
    - *What do you think are the two greatest challenges as all firms move towards algorithmic data-driven decision-making? Explain why these challenges are major ones.*
    - *Defend/critique — Artificial Intelligence is a big opportunity for every part of a firm's decision-making.*
    - *Defend/critique — A firm should offer transparency, internally and externally, on the algorithms it uses to make decisions.*
    - *Take an industry that is significantly challenged by the emergence of stronger privacy norms, and make a projection of the different paths this industry could take in the next decade.*

4B. April 12: 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. Mark Gallogly will join us for this conversation.

- *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:*
  - *Required: Statement of Solomon Hsiang, Chancellor's Professor of Public Policy, University of California, Berkeley. Presented to United States House Committee on the Budget, hearing on "The Costs of Climate Change: Risks to the U.S. Economy and the Federal Budget," June 10, 2019, available at https://static1.squarespace.com/static/596e4bf92994caa4c352f95a/t/5d091146ebe4d40001cfbc96/1560875334588/Testimony_Hsiang_6_10_19.pdf; IPCC, Climate Change 2021: The Physical Science Basis. Summary for Policymakers, available at https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM_final.pdf.*
  - *Optional: Trevor Houser, Solomon Hsiang, Robert Kopp, and Kate Larsen, The American Climate Prospectus- report funded by Bloomberg, Paulson and Steyer on impact of climate change on the US economy. Read chapters 4 through 11, available at https://impactlab.org/research/american-climate-prospectus/*
- *Possible Final Paper Prompts:*
  - *What impact can investors have on corporate policies toward climate change?*
  - *Name three companies that you think are leaders in mitigating climate change, and explain why you rank them so positively.*
  - *What do you think are the two greatest challenges in a transition away from fossil fuels? Explain why these challenges are major ones.*

Business and Social Movements

5A. April 19: 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 to which are pressured to respond. 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 movements, while reviewing evidence about how social movements have shaped business practices and stakeholder alignment in recent history. Kristen Silverberg, Chief Operating Officer of the Business Roundtable, will join us for this conversation.

- *Question: Which stakeholders should business leaders prioritize — shareholders, employees, investors, customers, or community members — when responding to social movements?*
- *Readings:*
  - *Required: Greg Satell and Srdja Popovic, "How Protests Become Successful Social Movements," Harvard Business Review, January 27, 2017; Lily Zheng, "We're Entering the Age of Corporate Social Justice," Harvard Business Review, June 15, 2020; and Michael W. Toffel, Aaron Chatterji, and Julia Kelley, 2017, "CEO Activism (A)," Harvard Business Publishing.*
  - *Optional: Sarah A. Soule, "Social Movements and Markets, Industries, and Firms," Organization Studies, 33(12), 2012, pp.1715-1733; Gerald Davis and Eun Woon Kim, "Social Movements and Organizational Change," In: The Oxford Handbook of Change and Innovation (Marshall Scott Poole and Andrew Van de Ven, Eds.), 2021, pp. 209-229.*
- *Possible Final Paper Prompts:*
  - *Based on the exercise from class, compare examples of social media posts by two CEOs reacting to the same social activism event. The two posts you choose should be different from those seen in class, and they should also illustrate two different approaches. In your paper, compare what you thought was effective or ineffective about each post, and investigate the aftermath of any changes in the organizations (led by the two CEOs) that were introduced, reflecting what the CEOs wrote in social media. Did each organization's actions reflect its CEO's words? Why or why not? Do you anticipate any further actions?*
  - *Choose a real contemporary issue around which there is social activism targeting a specific firm or organization, and put yourself in the position of the CEO. In your paper, please (1) summarize the social issue and the organization's involvement, and (2) using the stakeholder framework approach covered in class, identify changes in practices you would introduce to speak to relevant stakeholders.*
  - *Consider the following two situations: (1) A CEO who is ideologically conservative, but whose employees and customers are mainly liberal; (2)*

CEO who is ideologically neutral, but whose employees and customers are both polarized across the ideological spectrum. Suppose a conservative social activist group calls on the CEO's company to take a stand on a given social issue. How would you give advice to the CEO in scenario (1) versus the CEO in scenario (2)? Please feel free to draw on real-world examples from class and beyond.

5B. April 19: 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 in which business leaders need to engage, 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. Beth Ford, CEO of Land-o-Lakes will join us for this conversation.

- *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, September-October 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.*
- *Possible Final Paper Prompts:*
  - *Based on the exercise from class, compare examples of social media posts by two CEOs reacting to the same social activism event. The two posts you choose should be different from those seen in class, and they should also illustrate two different approaches. In your paper, compare what you thought was effective or ineffective about each post, and investigate the aftermath of any changes in the organizations (led by the two CEOs) that were introduced, reflecting what the CEOs wrote in social media. Did each organization's actions reflect its CEO's words? Why or why not? Do you anticipate any further actions?*

- *Choose a real contemporary issue around which there is social activism targeting a specific firm or organization, and put yourself in the position of the CEO. In your paper, please (1) summarize the social issue and the organization's involvement, and (2) using the stakeholder framework approach covered in class, identify changes in practices you would introduce to speak to relevant stakeholders.*
- *Consider the following two situations: (1) A CEO who is ideologically conservative, but whose employees and customers are mainly liberal; (2) CEO who is ideologically neutral, but whose employees and customers are both polarized across the ideological spectrum. Suppose a conservative social activist group calls on the CEO's company to take a stand on a given social issue. How would you give advice to the CEO in scenario (1) versus the CEO in scenario (2)? Please feel free to draw on real-world examples from class and beyond.*

Bringing It All Together

6A. April 26: 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 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. "Business as a Bridge Builder," Chapter 7 in Glenn Hubbard, The Wall and the Bridge, Yale University Press, 2022.*

6B. April 26: Roundtable Discussion (Faculty and Students)

Your faculty teaching team looks forward to a conversation with you on ideas, challenges, 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 the effects of climate change, a classic externality problem, requires policy action. In a time of dysfunctional government responses, what can and should businesses 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?*