

# Business Beyond The Public Sphere



**Rebecca Henderson**

**John and Natty McArthur Professor of Business  
Administration, Harvard University**

**[rhenderson@hbs.edu](mailto:rhenderson@hbs.edu), 617 495 8014**

# Dancing About Architecture:

- Public goods are... well, public
  - There is often no private incentive to tackle them
- Broadening managerial mandates invites problems of both agency and information
  - Using investor resources for private preferences
  - Making local, sub-optimal choices
- Blurring the line between public and private sectors invites potential subversion of the political process
- Besides, a concern with public goods is not something that (most) managers signed up for...

---

## Why, then, focus on this issue?

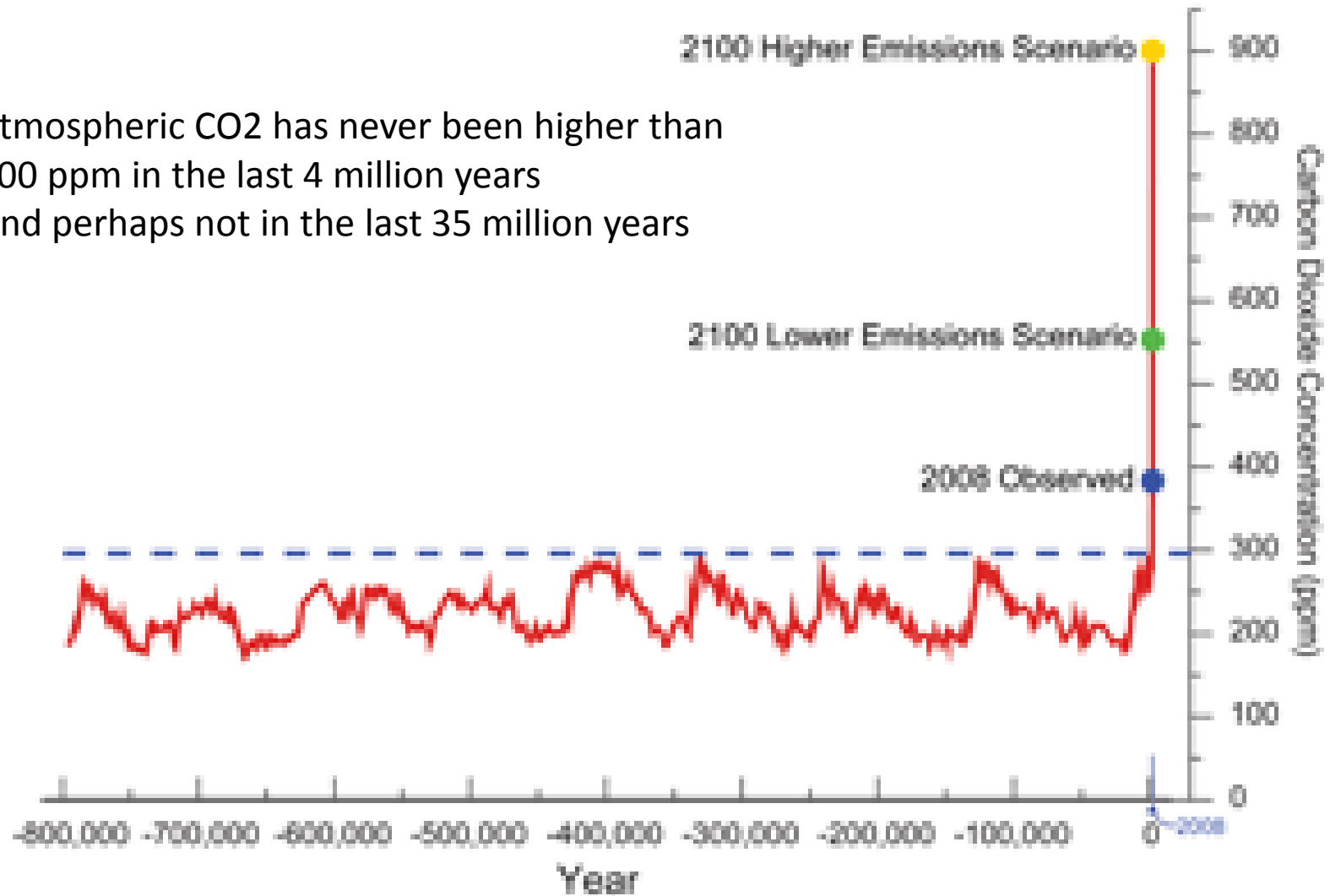
- Public goods problems are becoming more severe:
  - Corruption, failures of governance
  - Environmental pressure
  - Poverty & Inequality

<http://cpi.transparency.org/cpi2013/results/>

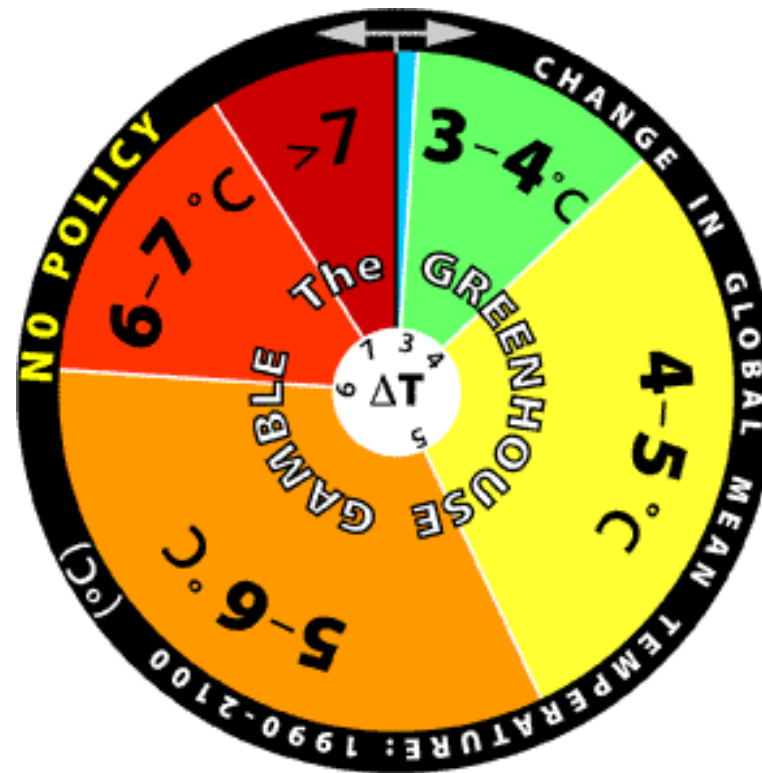
## Crony capitalism in action

- *“While I think that Rick is inclined to do this given Enron's desire to increase their exposure and influence in rule-making broadly, he is interested in knowing whether these types of commitments will add any formal or informal access to this process (i.e., would these types of commitments present opportunities to meet with the trustees of these groups or other benefits).”*
  - On Enron's half million dollar “donation” to the International Accounting Standards Board, from lead Arthur Andersen partner David Duncan on behalf of Enron Chief Accounting Officer Rick Causey

Atmospheric CO<sub>2</sub> has never been higher than  
300 ppm in the last 4 million years  
And perhaps not in the last 35 million years

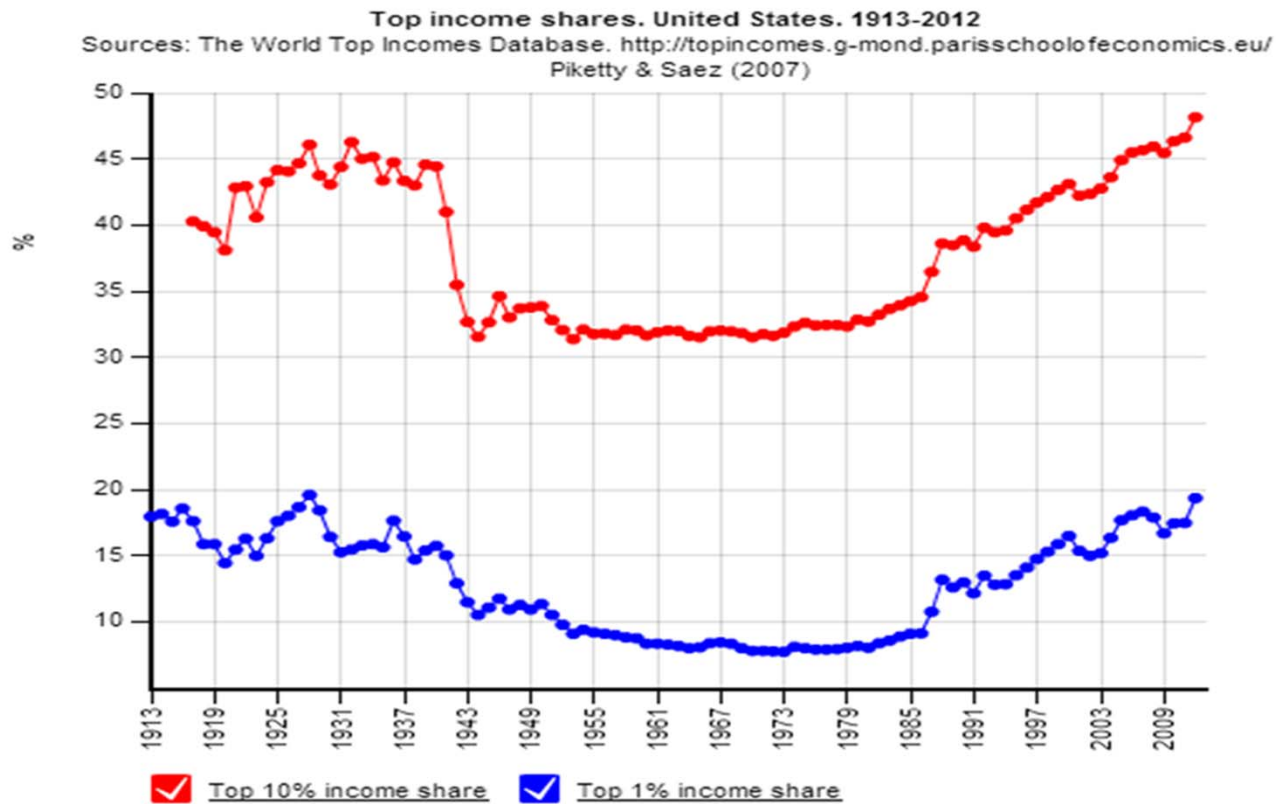


# The Greenhouse Gamble

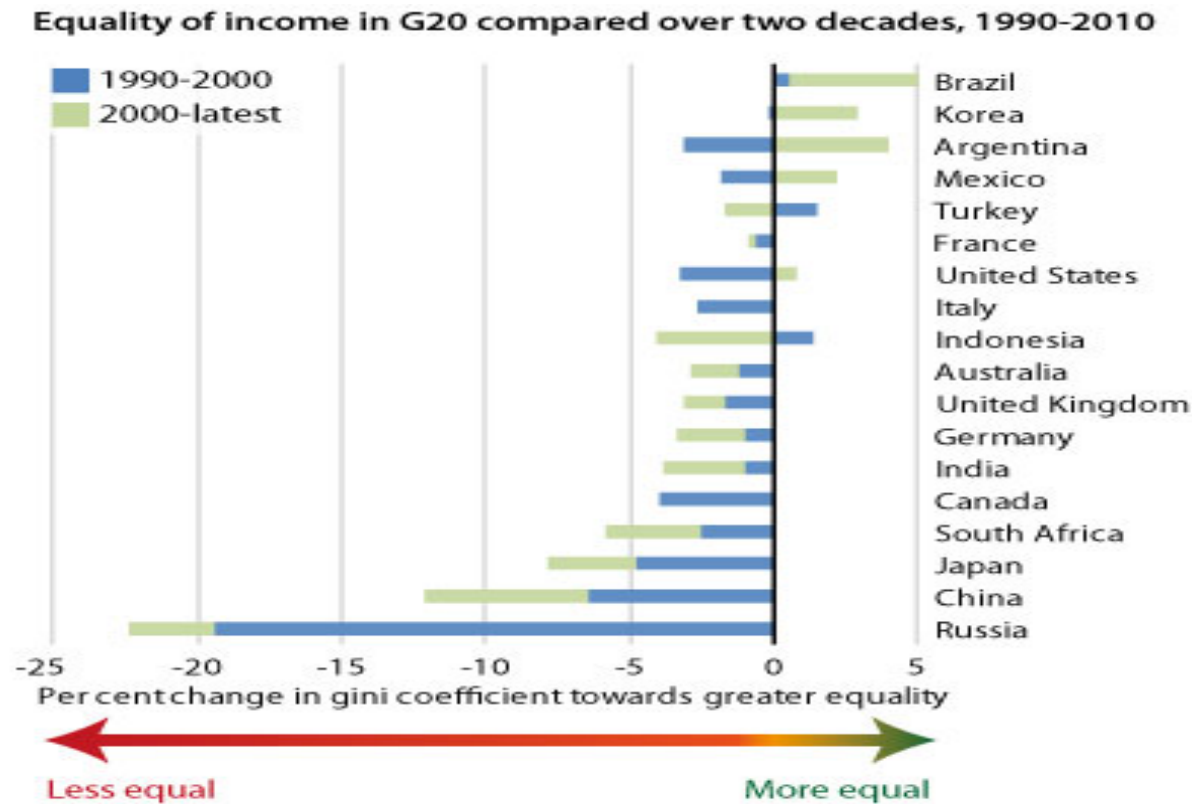


Source: MIT Joint center for climate change

# Fewer and fewer are getting more and more



# And not just in the United States...



Source: Oxfam using data from F. Solt (2010)  
'The Standardized World Income Inequality Database' (v3.0)

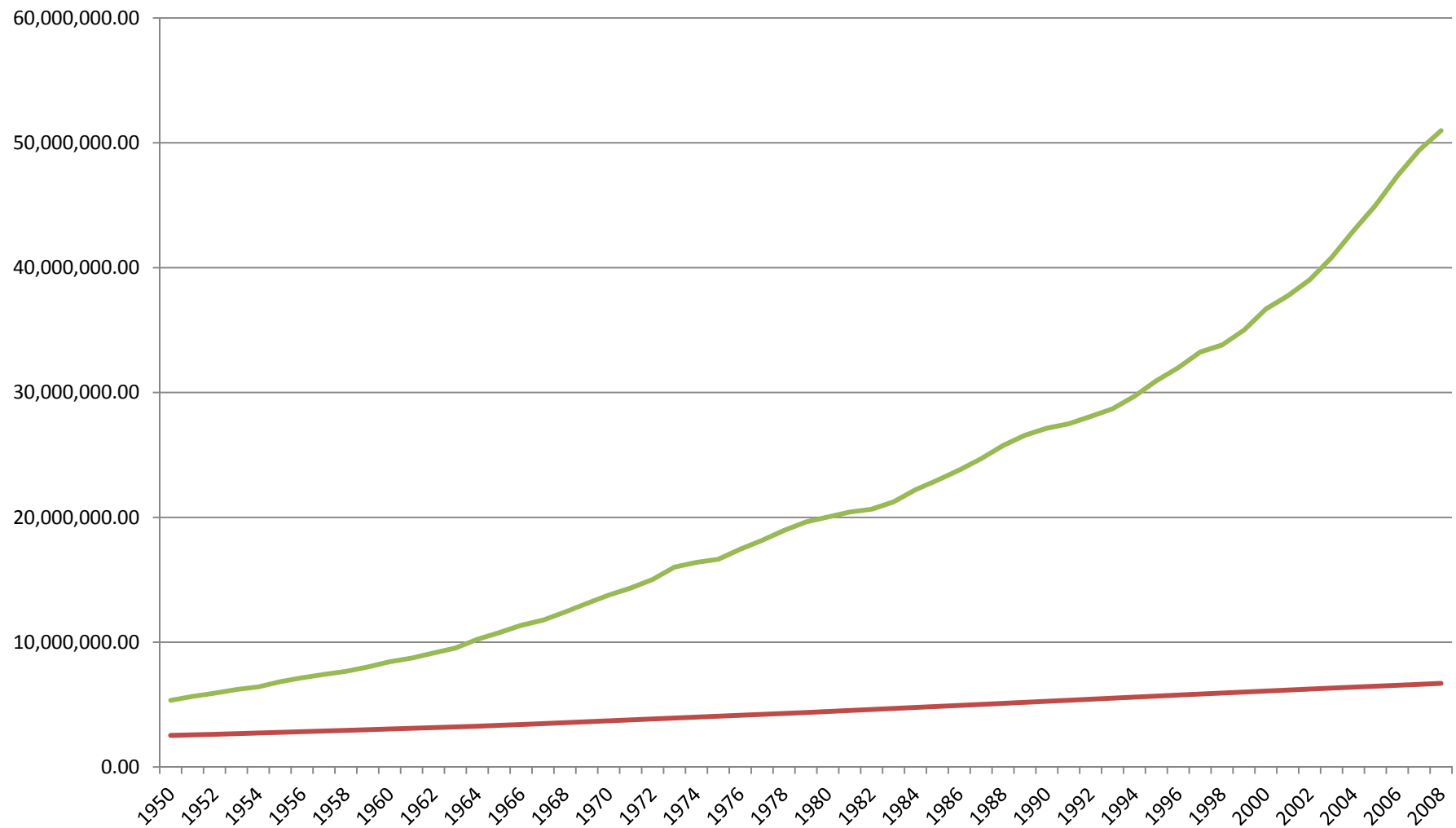
## Moreover:

- Political systems are under increasing stress
- The private sector has resources and capabilities that the public sector does not
  - And is already implicated
- Both global leaders (and our students) are increasingly raising it
- What are the plausible alternatives?

**NOT AN ASSAULT ON “CAPITALISM”**

# Capitalism's track record

— Population — GDP, \$1990



So (on) that the record of history is absolutely crystal clear. That there is no alternative way, so far discovered, of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system.

- Milton Friedman

---

## Our goals for this series

- To have a lively conversation about the state of the art
- To build a community of scholars interested in these questions
- To lay the foundations for a research agenda

# Seminar structure

## Diagnosis:

- Global governance: **Rafael Di Tella (HBS)**
- Inequality/Poverty: **Christopher Jencks (HKS)**
- The Environment: **Jody Freeman (HLS)**

## Disciplinary perspectives

- Sociology/History **Frank Dobbin (FAS)**
- Economics **Andrei Shleifer (FAS)**
- Comparative P. Economy **Bruce Kogut (Columbia)**
- Psychology **Cass Sunstein & Max Bazerman (HLS, HBS)**
- Political philosophy **Arthur Applbaum, (HKS)**

## Towards solutions:

- Inequality/Poverty **Larry Katz (FAS)**
- Global governance **Daniel Carpenter (FAS)**
- The Environment **Henry Lee (HKS)**

# **SOME PRELIMINARY THOUGHTS**

---

## Two broad areas of potential inquiry

- “Inducement” mechanisms
  - Is it feasible/desirable to change the constraints under which firms operate?
- Changing firm behavior
  - Is it feasible/desirable to think about changing firms themselves?

# “Inducement” mechanisms

- Appropriately designed property rights, taxes & regulatory regimes!!

And

- “Stakeholder” vs. “Shareholder” governance
  - New corporate charters?
- Changing time horizons
  - New financial instruments?
- Changing ownership structures
  - ESOPs, Cooperatives?
- New metrics
  - Accounting for “externalities”?

# Potential research questions

- *Do these kinds of measures work?*
  - *Do the current financial markets really force short term, “shareholders only” behavior?*
  - *Under what circumstances can metrics shift behavior towards the provision of public goods?*
- *What are their unexpected consequences?*
  - *Do they create agency problems?*
- *How can they be better designed?*
- *Can they be implemented?*

---

## Changing firm behavior

- Can firms create “shared value”?
- Does “purpose” matter?
- Can industries cooperate?
- *What are the responsibilities of managers?*

## Can firms create “shared value”?

- Between 1990 and 2012 IBM reduced electricity consumption by 6.1 billion kWh, saving \$477 million
- \$10bn+ invested in solar in 2013
- Renewables may provide more energy than gas by 2016
- Waste Management claims there is \$15 billion of revenue to be recovered in the ~100 million tons of garbage it collects each year
- Labels touting water savings increased sales of Gap jeans by 8%
- Fair Trade coffee commands a 23% premium.
- Panera Bread had 2012 revenues close to \$2bn, while Chipotle had 2012 revenues of almost \$3bn. Whole Foods is a ~\$12bn business
- Airbnb is forecast to reach \$1bn in 2014

## Shared value: research questions

- *If there are dollar bills lying on the side walk, why is no-one picking them up?*
- *What is the structure of consumer demand for “green” or “responsible” products? How will it change?*
- *Under what circumstances are there financial returns to internalizing externalities such as the strength of the local community?*

# Does “purpose” matter?

- “Purpose driven managers” appear to be driving change at a number of multi billion dollar organizations
  - Unilever, Nestle,
  - Nissan, Ford,
  - DSM, Dow
  - Becton Dickinson, Aetna
  - Henry Schein, United Stationers
- And at thousands of smaller ones

## Purpose: research questions

- *Is this all just green-washing and/or senior managers indulging themselves?*
- *If not, what's going on?*
  - *Does the embrace of “purpose” matter? If so how?*
  - *Under what conditions?*
- *Can purpose driven manager have industry and/or community wide effects?*

# Can Industries Cooperate?

- Some plausible beginnings:
  - Chemicals:
    - Waste
  - Textiles:
    - Labor conditions
  - Mining:
    - Governance
  - Cocoa, Fish:
    - Long term supply
- But many remaining issues:
  - Governance regulation
    - Can firms agree not to compete on issues of regulatory access and design?

---

## Cooperation: research questions

- *Under what circumstances?*
- *With what kinds of institutions?*
- *Can industry self-regulation plausibly be a complement to public regulation?*

## What are the responsibilities of managers?

- Does the private sector have responsibilities to “the system” in which it is embedded?
  - To free markets and just institutions?
- Have there been places and/or periods of time in which the private sector has actively supported the public provision of public goods?

---

## **In conclusion: Our goals for this series**

- To have a lively conversation about the state of the art
- To build a community of scholars interested in these questions
- To lay the foundations for a research agenda

**WE HOPE YOU WILL JOIN US**

**[HTTP://WWW.HBS.EDU/FACULTY/CONFERENCES/2014-BUSINESS-  
BEYOND-THE-PRIVATE-SPHERE/PAGES/DEFAULT.ASPX](http://www.hbs.edu/faculty/conferences/2014-business-beyond-the-private-sphere/pages/default.aspx)**

# Seminar structure

## Diagnosis:

- Global governance: **Rafael Di Tella (HBS)**
- Inequality/Poverty: **Christopher Jencks (HKS)**
- The Environment: **Jody Freeman (HLS)**

## Disciplinary perspectives

- Sociology/History **Frank Dobbin (FAS)**
- Economics **Andrei Shleifer (FAS)**
- Comparative P. Economy **Bruce Kogut (Columbia)**
- Psychology **Cass Sunstein & Max Bazerman (HLS, HBS)**
- Political philosophy **Arthur Applbaum, (HKS)**

## Towards solutions:

- Inequality/Poverty **Larry Katz (FAS)**
- Global governance **Daniel Carpenter (FAS)**
- The Environment **Henry Lee (HKS)**