

HARVARD UNIVERSITY
DEPARTMENT OF ECONOMICS
Economics 970 ♦ Spring 2008

**UNNATURAL PERSONS:
THE COMPANY IN HISTORICAL AND SOCIAL CONTEXT**

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Quantitative level: II
Time and location: Tuesday & Thursday, 4:00 – 5:30 p.m., Robinson 205

The point of it all is this: the law has facilitated, and technological developments have motivated, an enormous growth of a new kind of person in society, a person not like you and me, but one which can and does act, and one whose actions have extensive consequences for natural persons like you and me.

—James S. Coleman, *The Asymmetric Society*

This “new kind of person” is the corporation. In our capitalist society, the most numerous and influential species of corporation is probably the private enterprise, the *company*. We encounter companies daily as customers and, for many, as employees. Managed well, companies develop marvelous technologies and create enormous wealth. Managed badly, companies exploit employees, ravage the environment, and threaten the well-being of their customers. So what are companies? Why did they arise? How do they function? Whom do they serve? What role do managers play? These are the questions of the course.

In the first unit, we come to terms with the company and its environment, and we encounter the passionate debate between the advocates of free enterprise (Milton Friedman et al.) and centralized planning (John Kenneth Galbraith et al.). The second unit takes us on a whirlwind tour of major theories of the firm, from economics, to organization theory, to styles of management. In the third unit, we relive the epic struggle of twentieth century American capitalism. Rebellious mechanics, an unconventionally managed electric company, and swashbuckling corporate raiders make brief appearances. Next, we travel across the sea to Japan, a land of mysterious temples and possibly more mysterious companies. Our journey there begins with the rise of great merchant houses early in the Edo period, and terminates with two great modern manufacturing companies: Toyota and Hitachi. Finally, well-traveled and (we hope) wiser, we return home to take up again fundamental, still unresolved questions about the nature and purpose of the company.

In addition to general preparation for academic work in economics and beyond, the course seeks to equip you with conceptual tools for thinking about companies. Whether you aspire to a career in public policy, management, finance, professional services, or academia, you will encounter companies. As you deal with these “unnatural persons,” I expect that the perspectives from the course will help you frame problems, find solutions, and generally ensure that your interactions are positive and productive.

The course involves a substantial amount of reading, but rest assured that your time will be well spent. Our reading list will expose you to enduring classics of great theoretical importance, recent scholarship relevant to current business and policy issues, Harvard Business School cases, and several eclectic gems that have, sadly, been neglected and left to gather dust in dark corners. We will spend several days on the seminal book of Adolf Berle and Gardiner Means, which many cite but far fewer actually study.

OFFICE HOURS

Office hours will be held by appointment; please contact me by e-mail if you wish to schedule a meeting. Additionally, I am available after class on Tuesday evenings from 6 to 7 p.m. for informal discussions over dinner in the Spangler Cafeteria at the Harvard Business School. The possibility of alternative dinner venues will be discussed in class on an ad hoc basis.

EXPECTATIONS AND GRADING

Attendance and class participation will be 30% of the grade; assignments will make up the remainder. Absences will be excused on a case by case basis. I expect students in the seminar to:

- ◆ Read the assigned texts carefully and thoughtfully
- ◆ Come to class punctually
- ◆ Participate constructively in class
- ◆ Follow the instructions for the written assignments

As a former management consultant, I am a fervent believer in the value of informal feedback. If you would like feedback on your performance relative to these expectations, please do not hesitate to ask. Likewise, I would be delighted to receive your feedback on my teaching and discussion leadership.

ONLINE FORUM

An online forum provides a way to share information outside of class. The class web site, accessible via my.harvard.edu, includes links to the syllabus and other resources and discussion threads for each class session. Before each session, all students will post brief discussion comments or responses in the corresponding discussion thread. Beyond these required contributions, students are invited to post other relevant information or questions to the forum.

ASSIGNMENTS

As noted above, written assignments make up 70% of the grade. Attendance and class participation make up the remainder. Any professional career benefits from the ability to write clear, compelling prose. Our assignments, summarized below, will help you hone your writing skills. All assignments are due by midnight Boston time on the due date. Except for the discussion comments, submit papers via e-mail to [<dbrunner@hbs.edu>](mailto:dbrunner@hbs.edu) in Word or PDF format. Late submissions are not acceptable. Additional details on the assignments will be provided in class.

Discussion comments (one per session, 5% of grade)

Target length: one paragraph each

Deadline: midnight the day before each session

Post a brief, thoughtful contribution—an observation, question, or response—to the online discussion thread. Contributions will be graded check plus, check, check minus, or unsatisfactory, and the two lowest scores will be dropped. Satisfactory contributions are constructive, concise, demonstrate understanding of the material, and are posted by the deadline.

Perspective analysis and rewrite (10%)

Target length: 5 pages

Deadline: **Sunday, 17 February @ 24:00**

Rewrite deadline: **Sunday, 2 March @ 24:00**

Analyze the perspective of an author covered in the first unit (Fukuyama, Coleman, Friedman, or Galbraith).

Model analysis (10%)

Target length: 5 pages

Deadline: **Wednesday, 27 February @ 24:00**

Analyze one of the economic models covered in the second unit (Coase, Alchian & Demsetz, or Jensen & Meckling).

Empirical project (15%)

Target length: 5 pages

Hypotheses due: **Sunday, 9 March @ 24:00**

Data due: **Wednesday, 12 March @ 24:00**

Deadline: **Sunday, 23 March @ 24:00**

Our empirical project will be an exploratory investigation of relationships between revenue growth, profit, share buybacks, dividends, executive compensation, concentration of shareholdings, and shareholder value in a sample of large American companies. Using the readings from the course and a data set constructed collaboratively by the members of the class, students will formulate and test hypotheses. For those not comfortable with statistical analysis, there will be an optional empirical analysis workshop on **Thursday, 13 March** at 8 p.m.

Term paper prospectus (5% of grade)

Target length: 3 pages

Deadline: **Sunday, 6 April**

Formulate a question related to the literature and themes of the course. Explain why the question matters to you, and how you intend to address it.

Term paper (25% of grade)

Target length: 15 pages

Deadline: **Thursday, 8 May**

Write a clear, concise, closely-reasoned, and well-supported essay on the question that you developed in your prospectus.

Schedule of Reading and Assignments

I. CAPITALISM AND THE COMPANY

Session 1: Social Foundations (7 Feb)

- ◆ Francis Fukuyama. *Trust: The Social Virtues and the Creation of Prosperity*. New York: Free Press, 1995. Read part I, chapters 13-17, part IV. Harvard libraries.

Session 2: Historical Roots (12 Feb)

- ◆ John Micklethwait and Adrian Wooldridge. *The Company: A Short History of a Revolutionary Idea*. New York: Modern Library, 2003. Read in entirety. Harvard libraries.
- ◆ James S. Coleman. *The Asymmetric Society*. Syracuse, NY: Syracuse UP, 1982. Read chapter 1. Harvard libraries.

Session 3: Planning vs. the Market (14 Feb)

- ◆ Milton Friedman. *Capitalism and Freedom*. Chicago: U of Chicago P, 1962. Read chapters 1 and 8. Harvard Libraries.
- ◆ John Kenneth Galbraith. *The New Industrial State*. Princeton: Princeton UP, 2007. Read chapters 2 and 3. Harvard libraries.

II. THEORIES OF THE COMPANY

Session 4: Economics I: Contract Bundles (19 Feb)

- ◆ R. H. Coase. "The Nature of the Firm." *Economica* 4 (16) 386-405.
- ◆ Armen A. Alchian and Harold Demsetz. "Production, information Costs, and Economic Organization." *The American Economic Review*. 62 (5) 777-795.

Session 5: Economics II: Principals and Agents (21 Feb)

- ◆ Michael C. Jensen & William H. Meckling. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics* 3 (1976) 305-360.

Session 6: Economics III: Corporate Governance and the Structure of Capitalism (26 Feb)

- ◆ Andrei Shleifer and Robert W. Vishny. "A Survey of Corporate Governance." *Journal of Finance* 52 (2) 737-783.
- ◆ Peter A. Hall and David Soskice. "An Introduction to Varieties of Capitalism." In Peter A. Hall and David Soskice eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford UP, 2001.

Session 7: Organizational Theory I: Decision Machines (28 Feb)

- ◆ Herbert A. Simon. *Administrative Behavior*. 4th ed. New York: Free Press, 1997. Read chapter 5. Harvard libraries.
- ◆ James March and Herbert Simon. *Organizations*. 2nd ed. Cambridge, MA: Blackwell, 1993. Read chapter 6. Harvard libraries.

Session 8: Organization Theory II: Learning Organisms (4 Mar)

- ◆ Ikujiro Nonaka. "A Dynamic Theory of Organizational Knowledge Creation." *Organization Science* 5 (1) 14-37
- ◆ Arie de Geus. *The Living Company: Habits for Survival in a Turbulent Business Environment*. Boston: Harvard Business School P, 2002. Read chapter 6. Harvard libraries.

Session 9: Management Styles (6 Mar)

- ◆ Douglas McGregor. *The Human Side of Enterprise*. New York: McGraw-Hill, 1960. Read chapters 1-4 and conclusion. Harvard libraries.
- ◆ William G. Ouchi and Alfred M. Jaeger. "Type Z Organization: Stability in the Midst of Mobility." *Academy of Management Review* 3 (2) 305-314.

III. THE COMPANY IN AMERICA

Session 10: Exeunt Shareholders (I) (11 Mar)

- ◆ Adolf A. Berle and Gardiner C. Means. *The Modern Corporation and Private Property*. New Brunswick: Transaction Publishers, 1991. Read book 1 chapters 1, 2, 4, and 6. Harvard libraries.

Session 11: Exeunt Shareholders (II) (13 Mar)

- ◆ Adolf A. Berle and Gardiner C. Means. *The Modern Corporation and Private Property*. New Brunswick: Transaction Publishers, 1991. Read book 2 chapters 1, 2, and 8. Harvard libraries.
- ◆ Optional workshop on empirical analysis beginning at 8 p.m.

Session 12: Managerial Capitalism (18 Mar)

- ◆ John Kenneth Galbraith. *The New Industrial State*. Princeton: Princeton UP, 2007. Read section 6.VII and chapters 7, 10, and 15. Harvard libraries.
- ◆ Thomas J. Watson Jr. *A Business and its Beliefs: The Ideas that Helped Build IBM*. New York: McGraw-Hill, 1963. Read in entirety. Harvard libraries.

Session 13: Companies and Employees (20 Mar)

- ◆ Donald Roy. "Quota Restriction and Goldbricking in a Machine Shop." *The American Journal of Sociology* 57 (5) 427-442.
- ◆ Harvard Business School. "The Lincoln Electric Company." Case number 9-376-028. 1983.
- ◆ Jeanna Bryner. "Abused Workers Fight Back by Slacking Off." *LiveScience*. 8 Oct 2007. <<http://www.livescience.com/health/071008-abusive-bosses.html>>.

Spring break—no class (24 Mar – 28 Mar)

Session 14: Enter Shareholders (1 Apr)

- ◆ *Barbarians at the Gate*. Dir. Glenn Jordan. HBO Home Video, 1993.
- ◆ Jensen, Michael C. "Takeovers: Their Causes and Consequences." *Journal of Economic Perspectives* 2 (1) 21-48.
- ◆ George P. Baker and Karen H. Wruck. "Organizational Changes and Value Creation in Leveraged Buyouts: The Case of the O.M. Scott & Sons Company." *Journal of Financial Economics* 25 (1989) 163-190.
- ◆ Class movie night starting at 8:00 p.m.

Session 15: Shareholder Capitalism (3 Apr)

- ◆ Brian J. Hall and Jeffrey B. Liebman. "Are CEOs Really Paid Like Bureaucrats?" *The Quarterly Journal of Economics* 113 (3) 653-691.
- ◆ Andrei Shleifer and Lawrence H. Summers. "Breach of Trust in Hostile Takeovers." In Alan J. Auerbach ed., *Corporate Takeovers: Causes and Consequences*. Chicago: U of Chicago P, 1988.
- ◆ Emily Thornton. "Gluttons at the Gate: Private equity are using slick new tricks to gorge on corporate assets." *BusinessWeek* 30 Oct 2006.
- ◆ Charles Duhigg. "At Many Homes, More Profit and Less Nursing." *New York Times* 23 Sep 2007.

IV. THE COMPANY IN JAPAN

Session 16: Historical Perspectives (8 Apr)

- ◆ Yootaroo Sakudoo. "The Management Practices of Family Business." In Chie Nakane and Shinzaburoo Ooishi, eds. *Tokugawa Japan: The Social and Economic Antecedents of Modern Japan*. University of Tokyo Press, 1990. Harvard Libraries.
- ◆ James C. Abegglen. *The Japanese Factory: Aspects of its Social Organization*. Glencoe, IL: Free Press, 1958. Read in entirety. Harvard Libraries.

Session 17: Crisis and Reform (10 Apr)

- ◆ Stephen K. Vogel. *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*. Ithaca, NY: Cornell UP, 2006. Read chapters 1, 2 and 5. Harvard Libraries.
- ◆ T. Inagami and D. Hugh Whittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. Cambridge, UK: Cambridge UP, 2005. Read chapters 2, 3 and 5. Harvard Libraries.

Session 18: Japanese Companies Today: Hitachi (15 Apr)

- ◆ T. Inagami and D. Hugh Whittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. Cambridge, UK: Cambridge UP, 2005. Read chapters 8-13. Harvard Libraries.

Session 19: Japanese Companies Today: Toyota (17 Apr)

- ◆ Harvard Business School. "Toyota Motor Manufacturing, U.S.A., Inc." Case number 9-693-019. 1995.
- ◆ Paul S. Adler, Barbara Goldoftas, and David I. Levine. "Flexibility versus Efficiency? A Case Study of Model Changeovers in the Toyota Production System." *Organization Science* 10 (1) 43-68.

Session 20: Theorizing about the Japanese Company (22 Apr)

- ◆ Ronald Dore. *Stock Market Capitalism: Welfare Capitalism*. Oxford: Oxford UP, 2000. Read chapter 2. Harvard Libraries.
- ◆ Masahiko Aoki. "Toward an Economic Model of the Japanese Firm." *Journal of Economic Literature* 28 (1) 1-27.

V. WHITHER THE COMPANY?

Session 21: Review (24 Apr)

- ◆ William Lazonick. "Controlling the Market for Corporate Control: The Historical Significance of Managerial Capitalism." *Industrial and Corporate Change* 1 (3) 445-488.

Session 22: The Corporate Objective (29 Apr)

- ◆ Anant K. Sundaram and Andrew C. Inkpen. "The Corporate Objective Revisited." *Organization Science* 15 (3) 350-363.
- ◆ William Lazonick and Mary O'Sullivan. "Maximizing Shareholder Value: A New Ideology for Corporate Governance." *Economy and Society* 29 (1) 13-35.
- ◆ Henry Mintzberg, Robert Simons and Kunal Basu. "Beyond Selfishness." MIT Sloan Management Review, 44 (1) 67-74.

Session 23: Company and Society (1 May)

- ◆ Adolf A. Berle and Gardiner C. Means. *The Modern Corporation and Private Property*. New Brunswick: Transaction Publishers, 1991. Read book 4. Harvard Libraries.
- ◆ Adolf A. Berle. "Property, Production and Revolution: A Preface to the Revised Edition." In Adolf A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property*. New Brunswick: Transaction Publishers, 1991.