

# The Causes and Consequences of Activist States for Enterprising Firms and Markets

## Utah Strategy Summit

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**Strategy Summit 2024**

Deer Valley, Utah

# The Causes and Consequences of Activist States for Enterprising Firms and Markets

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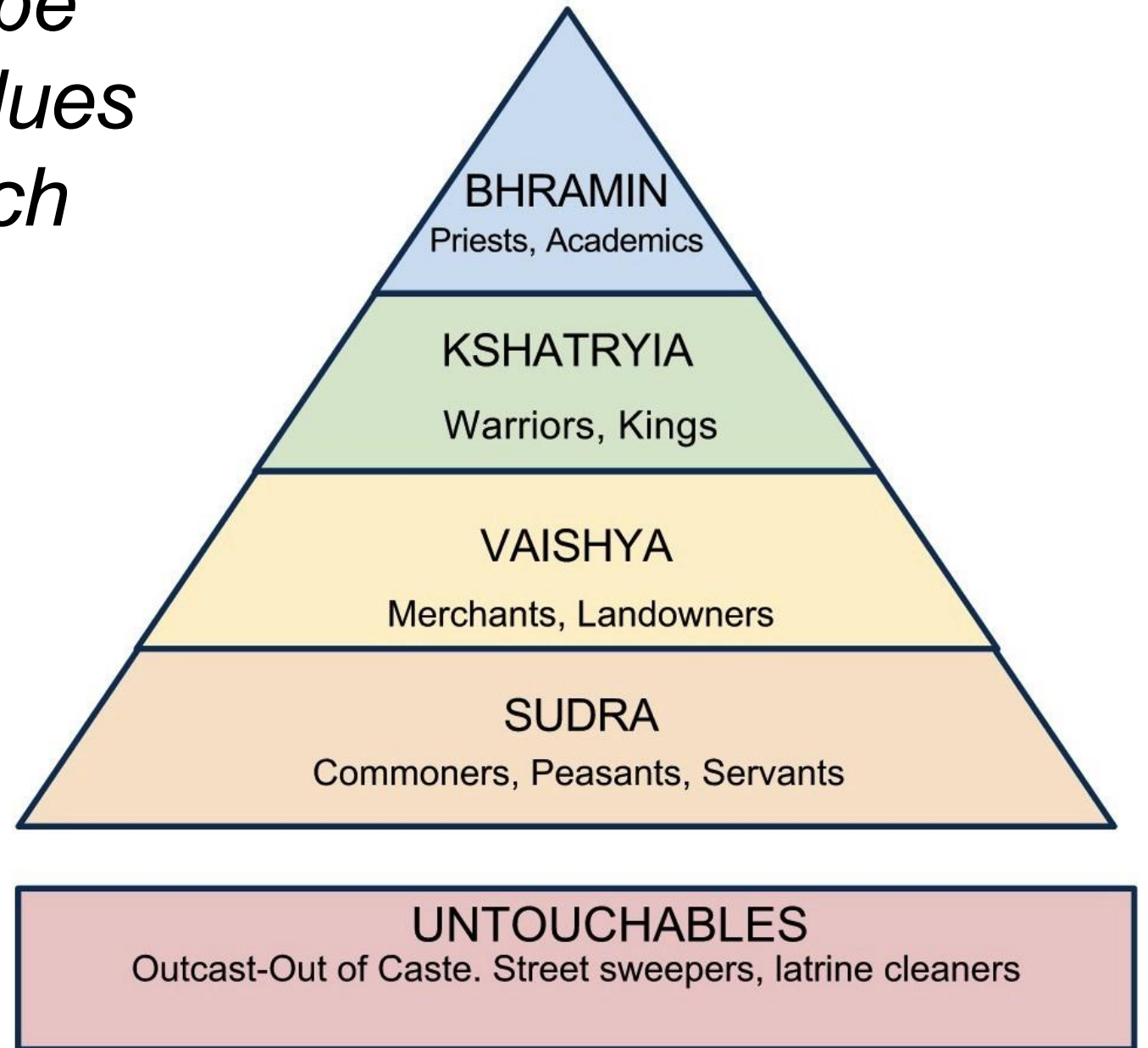
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*Channeling Bruce: Let's be transparent about the values that influence our research*

Strategy is about making choices!

*Whom to marry, and what work to do: determined by Birth within the Indian Caste System*





DOUGLASS C. NORTH  
JOHN JOSEPH WALLIS  
BARRY R. WEINGAST

# Violence and Social Orders

A Conceptual Framework for  
Interpreting Recorded Human History



- All societies must deal with the possibility of violence.
- Most societies limit violence by political manipulation of the economy to create **limited access** privileged interests.
  - “Natural state”
- Modern societies create **open access** to economic and political organizations, fostering **political and economic competition**
  - More fragile

*Impersonality is a central feature of open-access societies. Everyone is treated the same.*



**Markets and organizations are first and foremost platforms for collaboration among enterprising individuals**



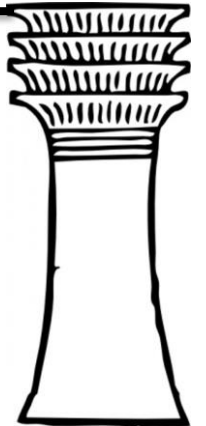
**Competition creates discipline and focus on “value-add”**

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**Role of the State:**

**Protection from External/Internal Sources of Violence**

**Legal Systems Protection of Individual Rights**



# An Enterprising Trader's Sudoku

**Me**

**Aspiration (Motives)**

What am I pursuing?  
How does it fit in my values/mission?

**You**

**Aspiration (Motives)**

What are you pursuing?  
How does it fit into your values/mission?

Integration of Psychology and Philosophy (What are the underlying values and monetary/ non-monetary drivers?)

**Shared Purpose**

What problems are we trying to solve and what objectives will we accomplish together?

Integration of Philosophy (What values will be achieved through voluntary trade?)

**CapAbility**

What do I bring to the table?

**CapAbility**

What do you bring to the table?

Economics (What complementary capabilities are brought together in transactions to create value?)

**TransAction**

What am I going to do?

**TransAction**

What are you going to do?



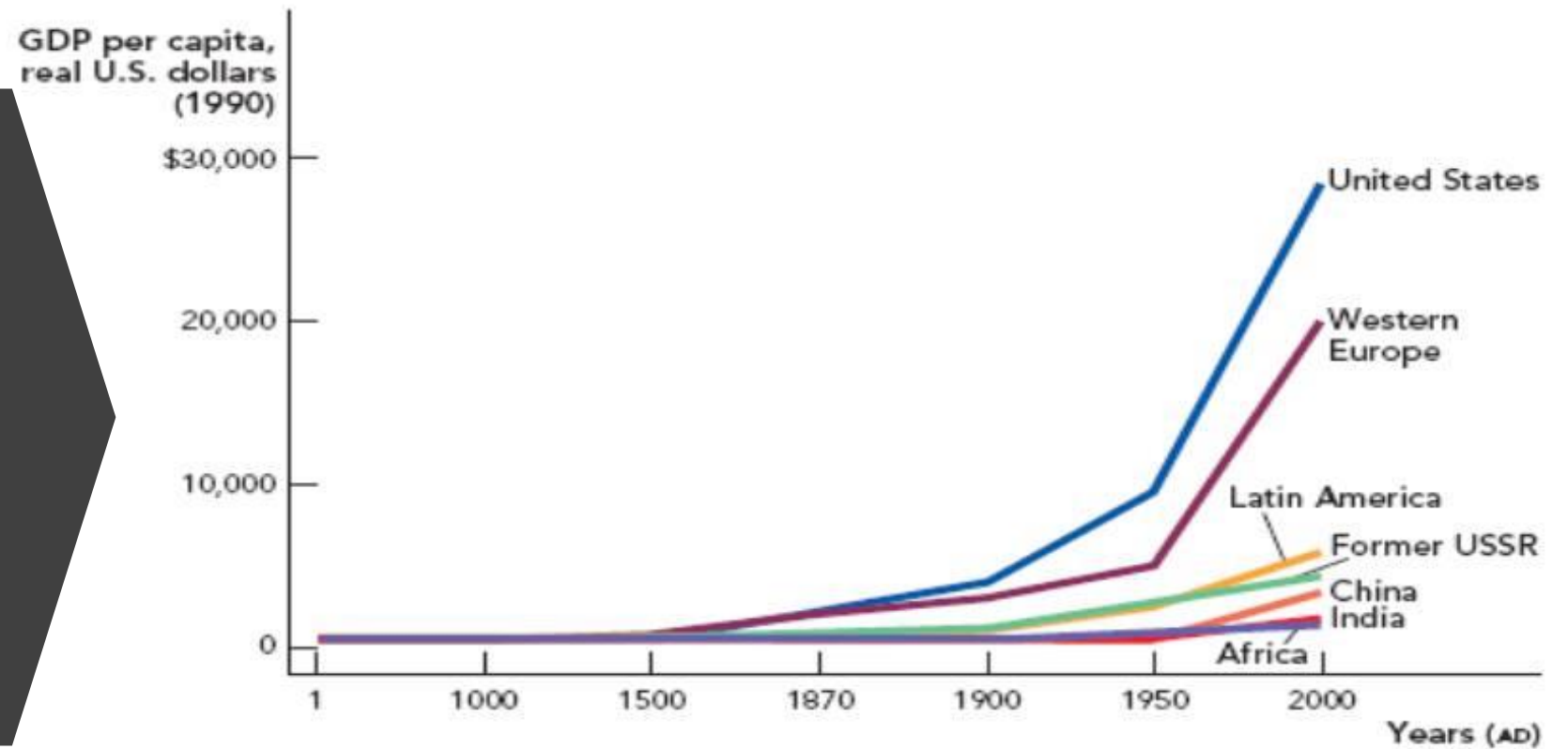
# Consequences of Enterprise and Markets in Open Access Societies

*Upward mobility in  
economic,  
intellectual and  
psychological  
realms!*





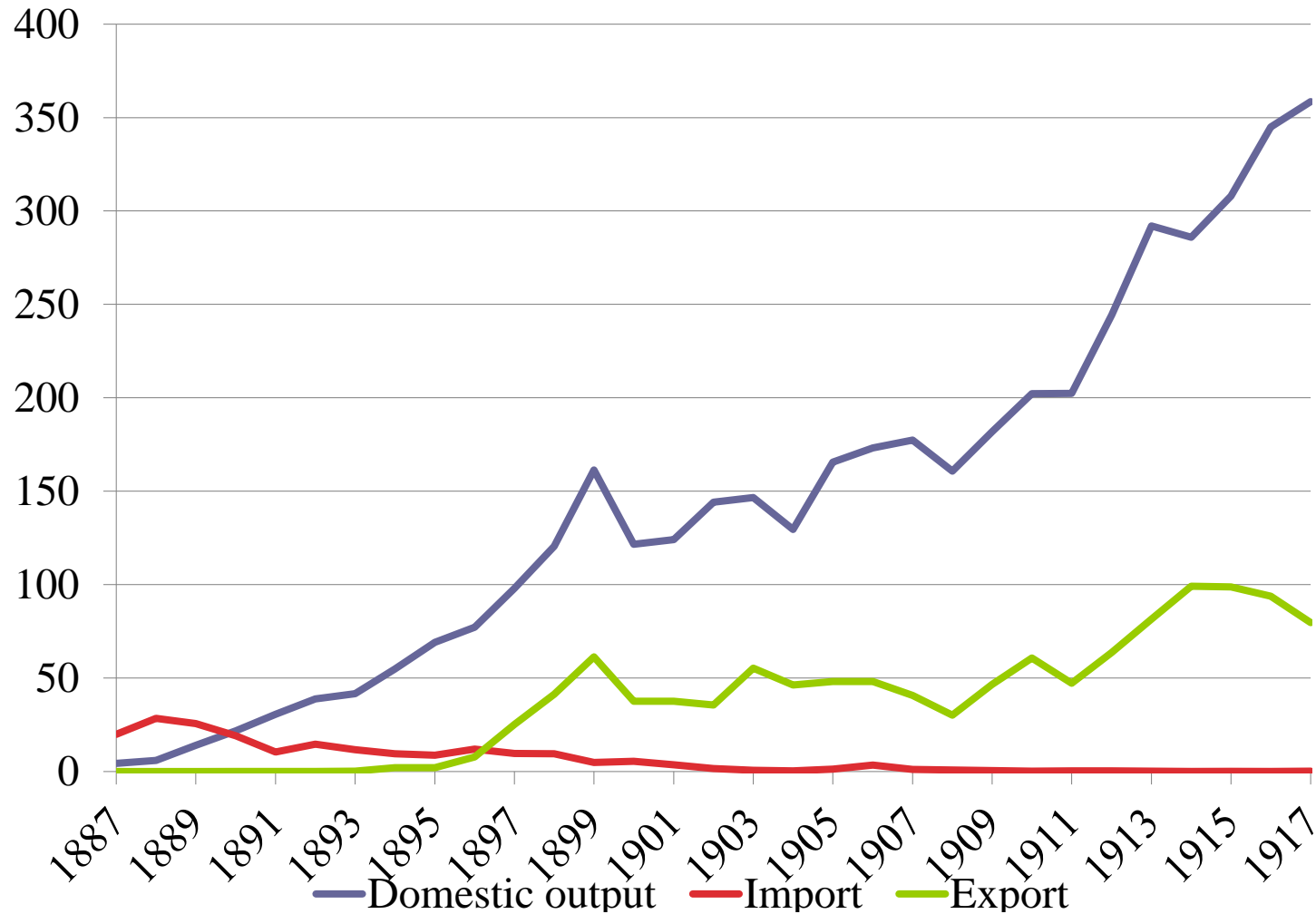
# The Economic Consequence of Open societies...



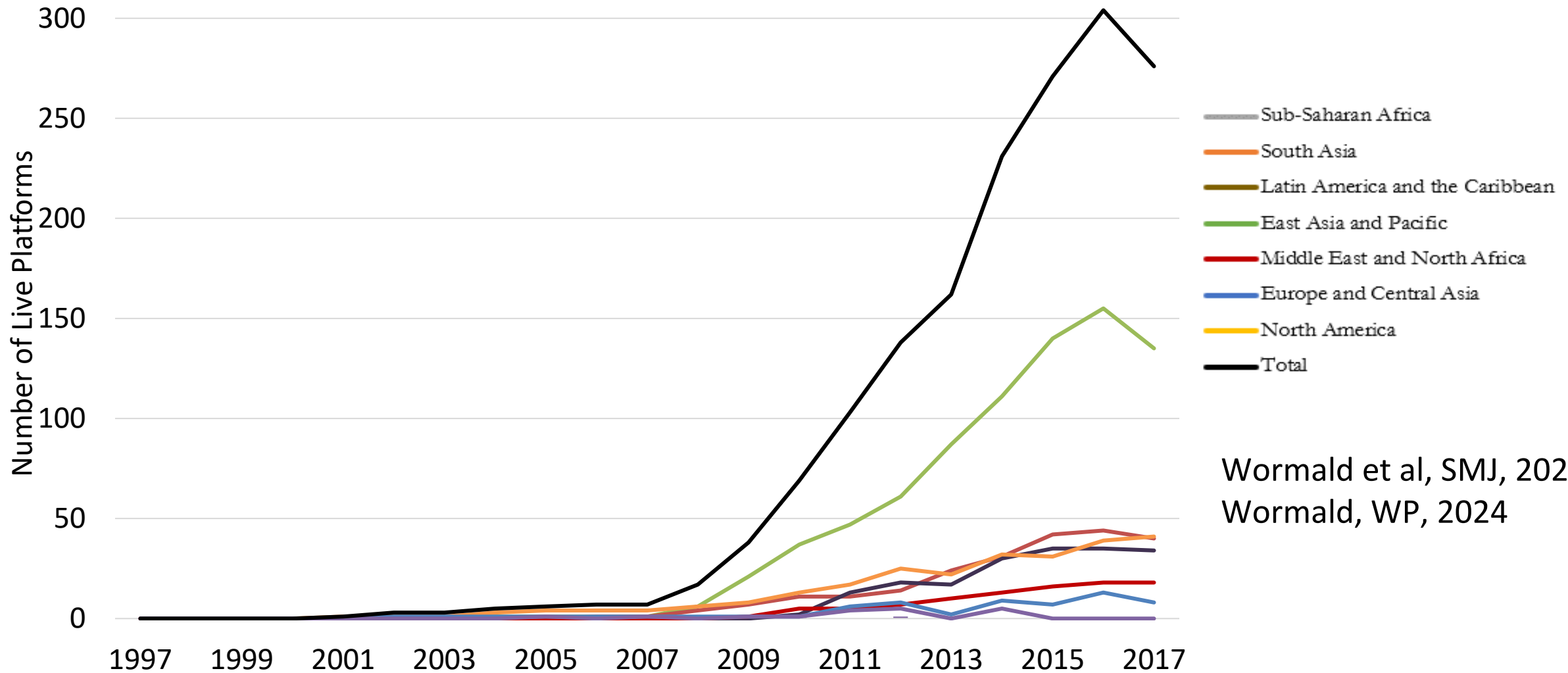
## Economic Growth in Major World Regions

Source: Maddison, Angus. 2007. *Contours of the World Economy: 1-2030 AD*. Oxford University Press, Oxford.  
Note: Timeline is not to scale.

...Japan's ascension as the only industrialized country in the East made possible when state abandoned industrial policy (Braguinsky & Hounshell, SMJ, 2016)...



# ...financial inclusion resulting from the emergence of mobile money industry

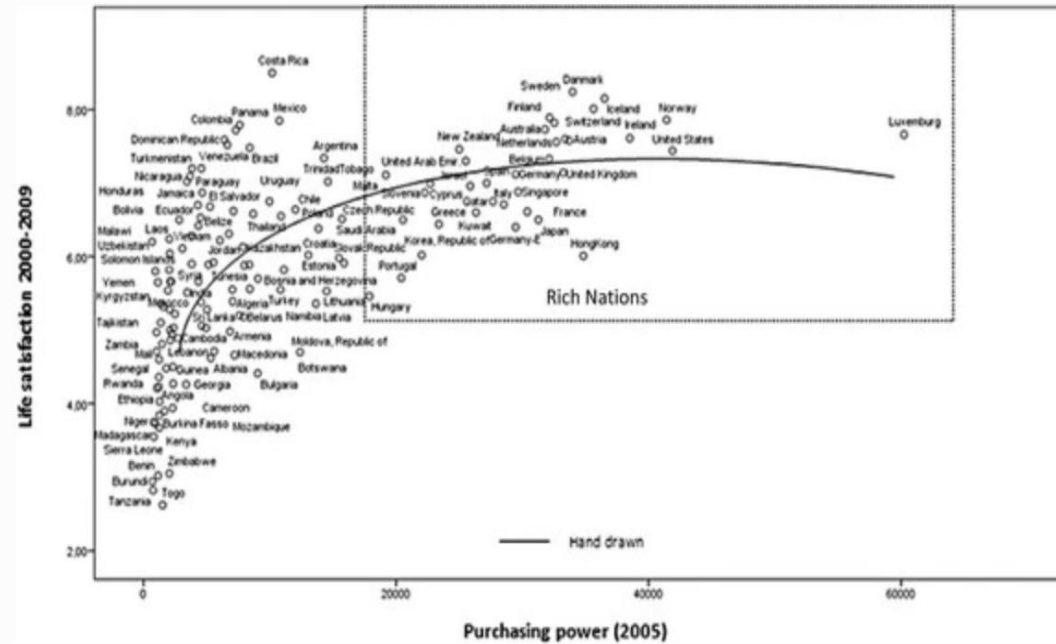


Wormald et al, SMJ, 2023  
Wormald, WP, 2024



# The Psychological Well-being Consequences of Open Societies

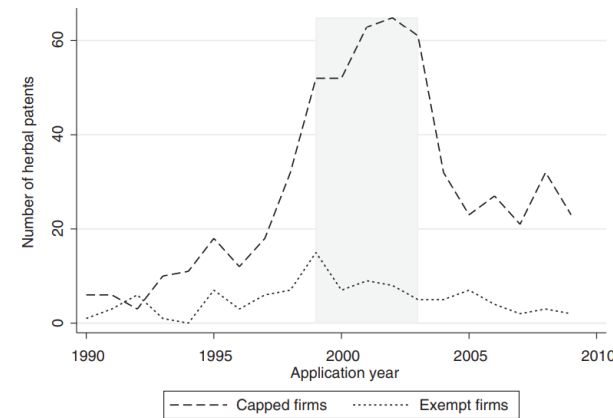
From: [Freedom and happiness in nations: why the Finns are happier than the French](#)



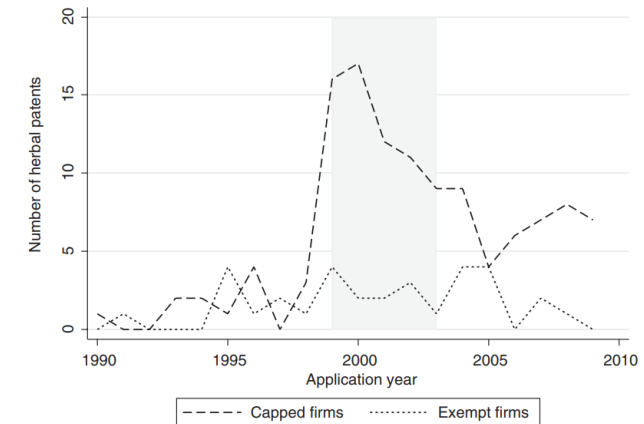
Life satisfaction rated by economic prosperity in 138 countries around 2005. World Database of Happiness, States of Nations, RGDP\_2005.

Brulé & Veenhoven. *Psychology of Well-being*, (2014)

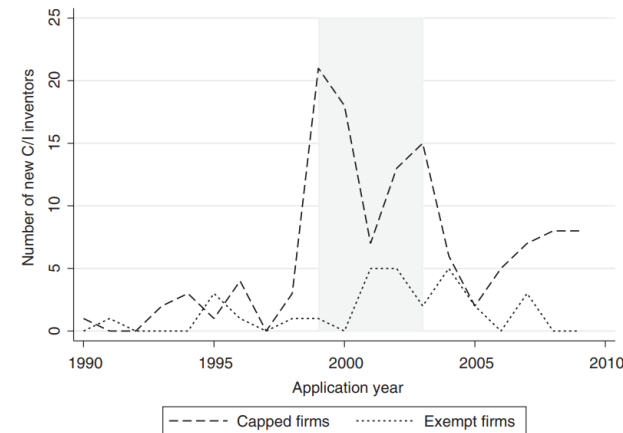
The intellectual  
consequences of  
open societies  
(Choudhury &  
Kim, SMJ, 2019)



(a) All herbal patents



(b) Herbal patents by Chinese/Indians



(c) New Chinese/Indian inventors



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# The Rise of Activist States Within Open-access Societies: The Nirvana Fallacy

- Judging the practical based on an ideal
  - Practical capitalism beats practical socialism/communism, and ideal capitalism beats ideal socialism by recognizing principles of human dignity (Brennan, 2014)
- Judging the system based on imperfections it inherited rather than solved
  - Ignoring the evolutionary processes through which open societies evolve over time (Rosenberg, 1969; 1992)





# Governments differ from Enterprise and Markets

- Their fundamental role in society is to uphold ***political equality*** through institutions wherein individual rights are protected
  - Law, order and protection from external aggression
- They are ***not producers*** of economic goods and services
  - And if not checked, politicians and regulatory agencies can wield enormous power on *who* are the producers, *what* and *how* they produce, and *to whom* are the goods and services distributed



**Markets and organizations are first and foremost platforms for collaboration among enterprising individuals**

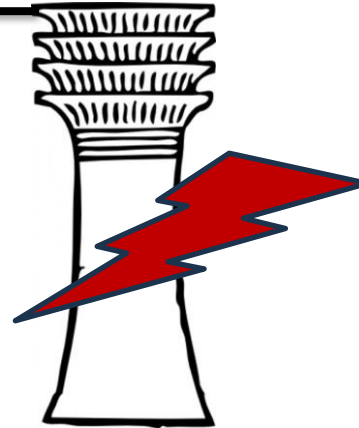


**Competition creates discipline and focus on “value-add”**

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# Activist States: Consequences of Blurred Lines between Roles of States, Markets and Organizations



The Why/What??  
(Content)

The Knife's edge  
between open and  
limited access  
societies



The How??  
(Process)

Strategies used by  
Activist states vs.  
Enterprising firms  
within markets



The So-what?  
(Performance)

(Un)-Intended  
Consequences of  
Activist states on  
enterprising firms and  
markets

Channeling the first session of the summit: What are the core questions for strategy?  
Ron's comment: Does, how and how much does strategy matter?



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# The pillars of America's new industrial strategy : Good Intentions



## American Rescue Plan

- \$1.9 trillion designed to stimulate the economy out of the pandemic
- **Increased economic growth**, avoiding a double-dip recession in 2021
- Set the stage to implement large-scale industrial strategy



## Bipartisan Infrastructure Law

- \$550 billion to invest in **infrastructure projects**
- Already funded over **32,000 projects** in all 50 states and every territory
- Crowding in private investment in key sectors



## Inflation Reduction Act

- \$500 billion to boost clean energy, reduce healthcare costs, increase tax revenue
- **\$11.7 billion** for the Loans Program Office at DoE to help support innovation
- Aims to accelerate our response to the global **climate crisis**



## CHIPS and Science Act

- Appropriates \$53 billion to boost US semiconductor manufacturing, R&D, & tech hubs
- Over \$300 billion in private sector investments since CHIPS was passed
- **Hundreds of thousands** of well-paying jobs estimated to be created

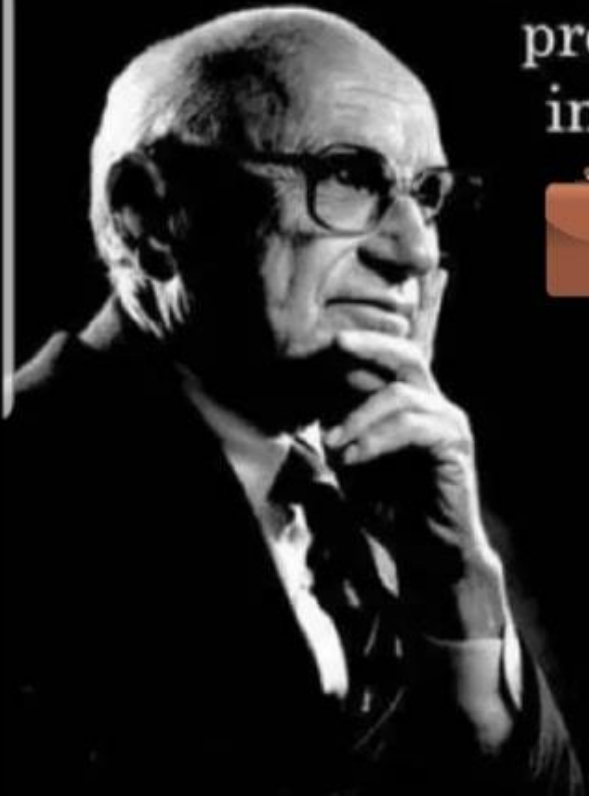
# The road to Hell is often paved with good intentions.



“One of the great mistakes is to judge policies and programs by their intentions rather than their results.”



- Milton Friedman



- The Why/what?: Good Intentions for (open) access
  - Promote Social “Goods”
    - Access to education, health, housing, infrastructure
    - Basic science
  - Preserve local jobs/increase employment
    - Protection from immigration; technological changes
  - National security
    - Armed Forces (foreign invasion)
    - Police (Internal sources of violation of rights)
    - Law (legal protection; contract enforcement)



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# Strategy scholars weighing in (and the need back these insights with more research!)

Aseem:

- But salience and valence of values differ, and firms respond by occupying different positions catering to these (Mohliver, Crilly & Kaul, SMJ, 2023)

Mike (Lenox):

- For-profit firms identify their values in their mission statement, and appeal to stakeholders who resonate with these values

Claudine/Sinzi:  
Stakeholders may  
have conflicting goals

- **What happens when the “why?” in industrial policy conflict?**
- Increased economic growth vs. reduced inflation;
- Climate crisis vs. lower energy/health/infrastructure costs;
- Increased science/tech hubs vs. reduced immigration at all skills levels

*Channeling Aseem and Gautam*  
*What if “good intentions” mask*  
*underlying opportunistic goals?*

Study of the “why” at individual  
level:

How does the quest for power and  
personal gain in public actors meet  
public good goals, relative to quest  
for profit by business leaders and  
entrepreneurs by solving problems  
they perceive in the world?





WSJ

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## *The Many Abuses of Lina Khan's FTC*

Christine Wilson's resignation highlights the agency's bad turn.

Harvard  
Business  
Review

## An Inconvenient Truth About ESG Investing



RESEARCH ARTICLE | [Open Access](#) | [CC](#) [BY](#) [NC](#) [ND](#)

Perceptions of political Self-Dealing? An empirical investigation of market returns surrounding the disclosure of politician stock purchases



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# The pillars of America's new industrial strategy : The How matters!



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Policies are often constructed without access to relevant data that informs the “how?”

- Key questions for the FESAC committee asked **AFTER** CHIPS Act policy was formed:
  - Which industries are critical for “national security” supply chains? (Bureau of Census)
  - What are current employment figures across sectors and how fungible are these? (BLS)
  - What is the current global import-export tables for relevant industries? (BEA)



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# Research by strategy scholars (and more needed in this vein)

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- **Riitta:** Not just government funds, but how funds are deployed and to whom—contracts, grants or cooperative agreements (Rathje, Katila, Reineke, SMJ, 2024)
  - Consistent with Agarwal, Kim & Moeen (SS, 2021) regarding selection processes, and use of command & control vs. coordination in mission oriented grand challenges
- **Sergio (and Anita and Peter):** Governance structure of hybrid organizations is key (e.g., prisons—Cabral, Lazzarini & Furquim, SEJ, 2013)
- **Alfonso, channeling Rosenberg; Violina; Michael:** In a world of uncertainty, experimentation based on “bets” induced by imagination and theories are key because “omniscient” social planner cannot know
- **J.P (and Seojin Kim):** Do firms go against regulators and why? (COVID tests—Kim & Eggers, WP 2024)
- **Britta Glennon:** How did US immigration policies contribute to offshoring of high-tech industries in the first place? (Glennon, MS, 2023)
- Channeling **Zeke & Raj’s** work: What is the role of current immigration policy in creating a labor shortage given positive demand shock in high tech industries (Choudhury & Kim, SMJ, 2023; Hernandez, 2024)



# Other insights from existing work: Wright and Wood (AMP, 2015)

**TABLE 1**  
**Manifestations of New Statism and Their Dimensions and Theoretical Perspectives**

<b>Dimension</b>	<b>Sovereign wealth funds</b>	<b>Security complexes</b>	<b>Partnership and finance</b>	<b>Example theoretical perspectives for research</b>
<b>Markets</b>	<i>Within parameters set by parent government and degree of financial protectionism by target market</i> Tendency to invest abroad, but with important exceptions	<i>Sheltered market position benefiting insider firms</i> Government military procurement Use of parent government's political leverage to access markets abroad Long-term tenders to run prisons Provision of wide range of security services	<i>Sheltered market benefiting insider firms</i> PFI arrangements tending to stretch into the medium and long terms	Industrial organization, competitive dynamics, market and nonmarket competition, regulation theory
<b>Role of the state and political relations</b>	Expansion of state functions: new form of state ownership, characterized by global reach	Delegation of state functions to private players Expansion of active industrial policy in the case of defense industries Political–corporate contracting	Delegation of state functions to private players; PFIs allow for public debt to be kept off the books Political–corporate contracting	Comparative capitalism, institutional theory, accounts of institutional change, corporate–political ties, elite theories
<b>Ethics and CSR</b>	Relative emphasis on ethical investments Leverage of SWFs by parent governments for diplomatic ends	Monitoring and control of the use of force Transparency in the granting of contracts PMCs using military power to leverage economic concessions in developing nations	Transparency in the granting of contracts Opacity of financial models	Corruption theory, public good theory, relational contracting



# The big question of so-what?: Intended and Unintended consequences

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- **Riitta (and Shruti)**: Antitrust regulation against platform owner decreased profits of complementors and did not increase competitive entry— platform owners were not affected one way or another (Thatchenkery and Katila, SMJ, 2023)
- **Channeling Melissa**: WSJ article yesterday profiles that AI startups seeking acquisitions as a successful exit strategy are worse off given increased antitrust scrutiny of BigTech— *opportunity to do qualitative research using theoretical case sampling*
- **Bruce**: Porter’s inversion of welfare economics for profit maximization:
  - Non-market strategy is one of the best ways to win when strategy is cast in terms of win-lose competitive dynamics
  - American Recovery and Reinvestment Act funds were largely channeled to politically connected firms (23 % greater probability); a 10 pp increase in the share of politically connected spending lowered the job creation effect of stimulus by 33% (Choi, Penciakova, Saffie, NBER, 2024)



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Questions to  
ponder on the so-  
what?:

Long term (un)-  
intended  
Consequences that  
create limited  
access

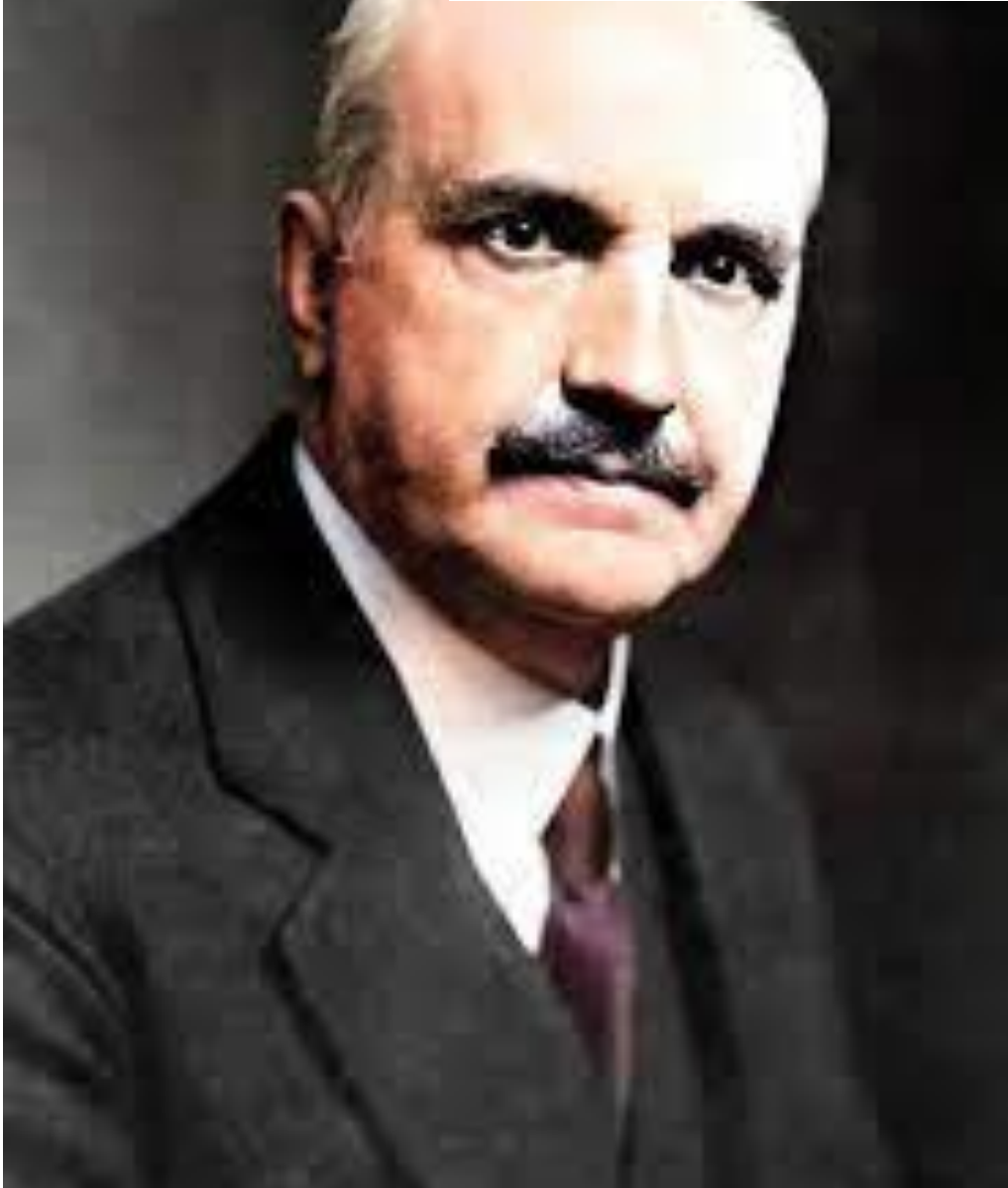
- Rigid bureaucracies:(command and control vs. entrepreneurial experimentation)
- Waste of Taxpayer (Other People's) Monies
- Interest group warfare (Instability and breakdown of institutions)



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# Those who cannot remember the past are condemned to repeat it—Santayana



- The Why/what? and incentive alignment: Why are politicians and public agents more well-intended than business leaders and entrepreneurs?
  - Folly of Rewarding A While Hoping for B
- The How? and strategic process: How does command-and-control mesh with entrepreneurial experimentation?
  - Selection and resource mobilization processes may be fundamentally incompatible
- The So-what? and performance: What are the long-term consequences (undercutting the pillars of open societies) of short-term policies and strategies?
  - The rise of closed access based on nationalism, tribalism and collectivist-based identities



# Call for Research by Strategic Management Scholars

- Enterprise and markets are under attack, including by people who say they are defending it
- More research that
  - Does not engage in the “nirvana fallacy” and embraces the messy world of experimentation and evolution
  - Examines not only “extreme cases” or short term effects but also representative samples and long-term consequences
  - Carefully examines tradeoffs across intentions, mechanisms, and contradictions in underlying assumptions

