

Management and Market Failures

Pankaj Ghemawat

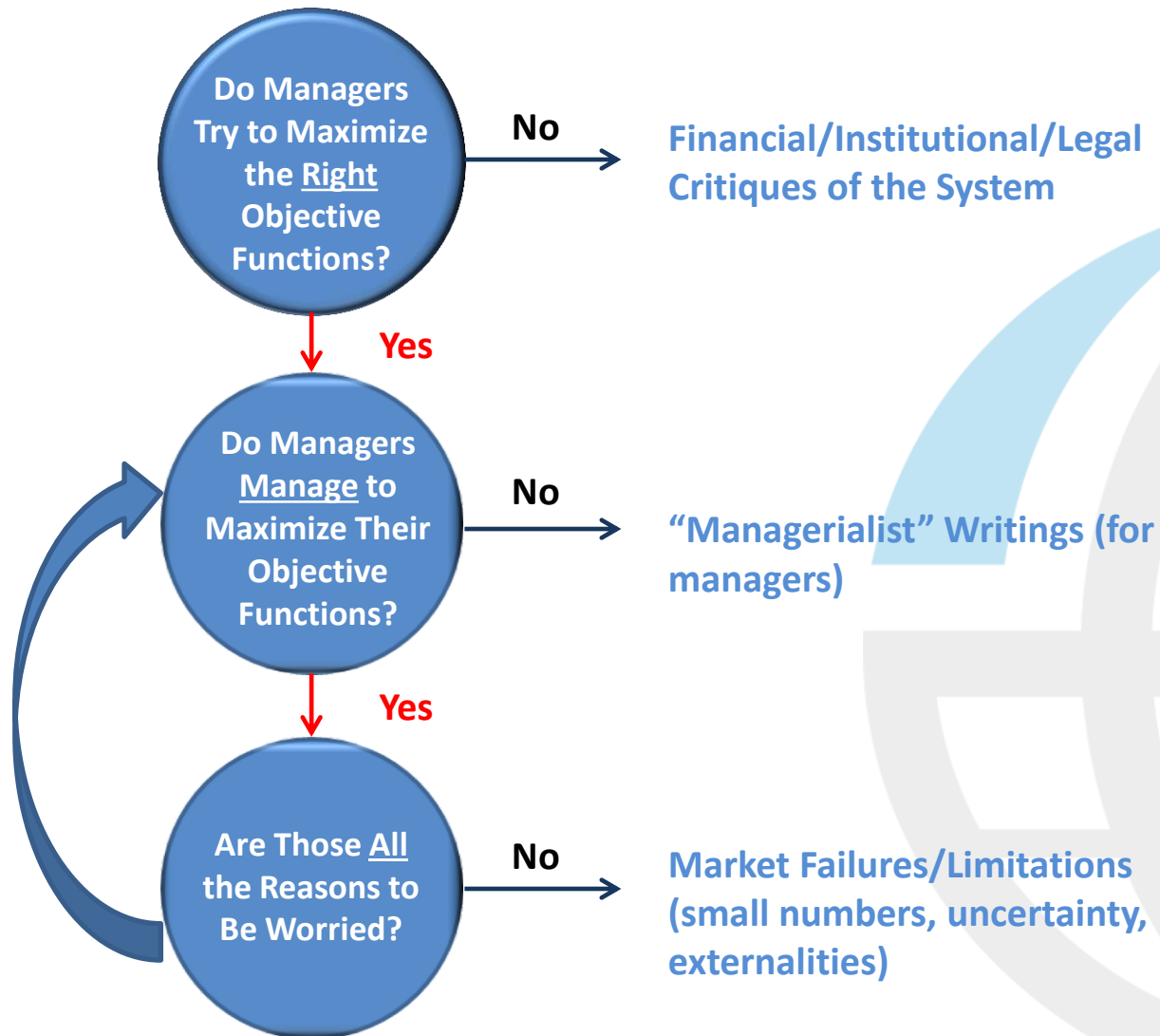
**Global Professor of Management and Strategy
NYU Stern School of Business**

**Anselmo Rubiralta Professor of Global Strategy
IESE Business School**

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Limits to Managerial Capitalism?



Market Failures Expand the Scope for Management Failures

- **Small numbers.** Poor decisions by managers at a company are of more concern if the company is one of a few or, even worse, a monopoly.
- **Uncertainty.** Choices about how high to set investment hurdles and the logic of discounting expected cashflows are more likely to be issues under conditions of high uncertainty/ambiguity
- **Externalities.** Managers are likely to be more confused about what to internalize and what to ignore (externalize) when there *are* some externalities.



Three Questions

- Free markets always lead to vigorous competition.
- Farsighted companies can be trusted to do well by the environment.
- Smart companies can handle risks and market volatility on their own.

(1)
Strongly
Disagree

(2)
Disagree

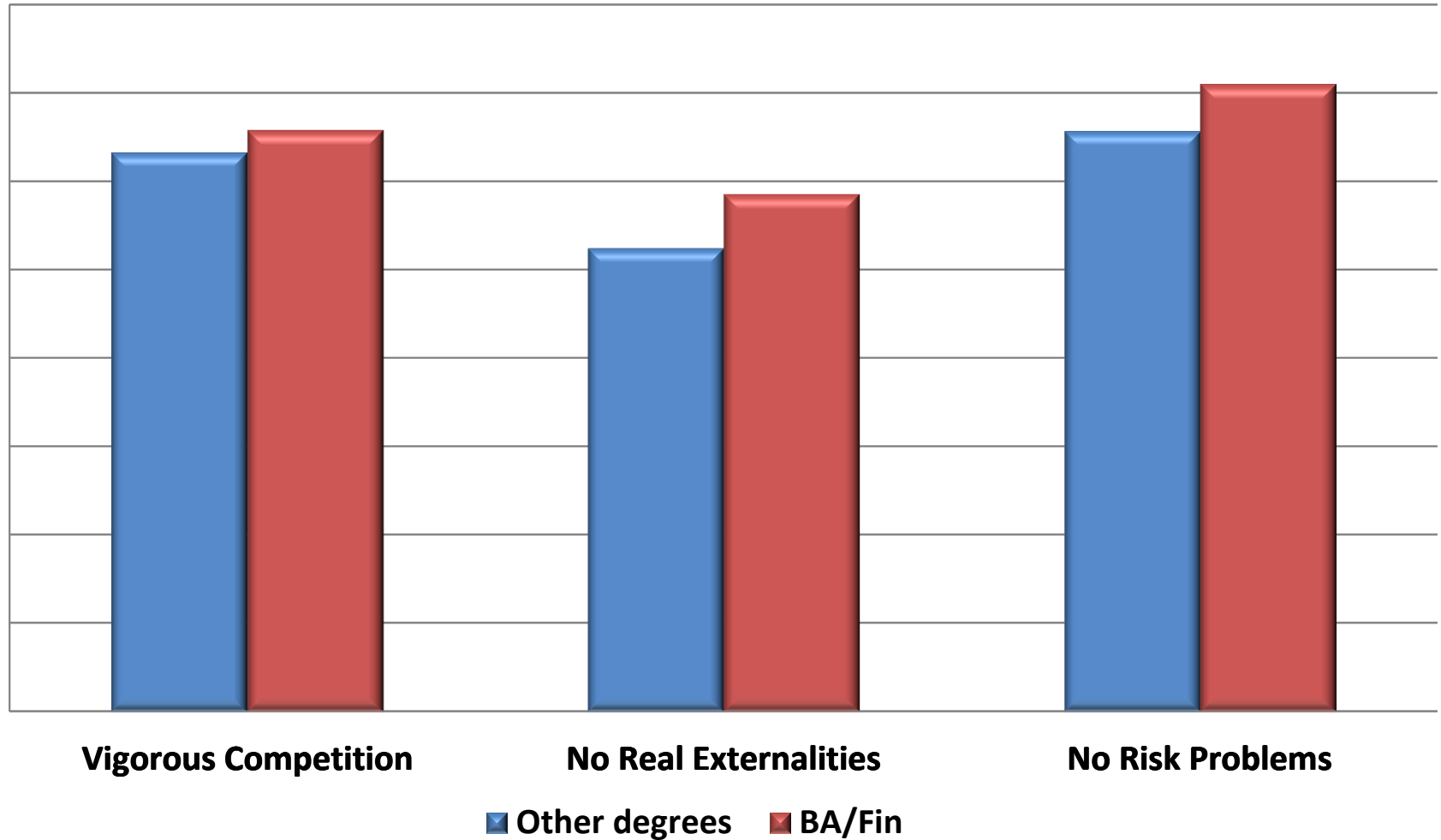
(3)
Neutral

(4)
Agree

(5)
Strongly
Agree



US Survey Results: Degree of Agreement



- **BA/Fin masters consistently guessed highest and econ/other social science/humanities masters lowest.**
- **Significance of business education dummy variable survived controls for self-declared Republican orientation**
- **Also survived controls for age, gender and income category.**



- **Before business school?**
- **During business school?**
- **After business school?**



Curricular Social Responsibility

Some Modest Proposals

- **Include some material on market failures in the core of the curriculum**
- **Discuss the interactions between managerial failures and market failures**
- **Emphasize that coordination, regulation, other forms of collective action required to complement individual acts of heroism.**
- **Name-and-shame companies/industries as well as naming-and-acclaiming.**

