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The economy doesn't need a reset, and neither does management theory

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ABSTRACT

Policymakers, commentators, and academics have called for a Great Reset, a deep-seated overhaul of the organization of the global economy. Some suggest that management theory needs a reset of its own. We argue that Great Reset proponents fail to appreciate the power of markets to bring about desirable social outcomes and are overly sanguine about what governments can do to alleviate alleged market failures. These views also drive the increasing enthusiasm for stakeholder governance, an increased government role in innovation, and the call for new metrics for assessing outcomes, all part of the Great Reset narrative. And yet, concentrating more decision power in the hands of governments, implementing diffuse metrics, and diluting effective ownership can hamper the functioning of markets, encourage crony capitalism, and reduce the resources that are available for dealing with grand challenges. Existing management theory provides powerful tools for understanding the benefits and costs of alternative institutional arrangements; abandoning these tools will push management theory to the sideline in policy debates.

1. Introduction

"The Great Reset" of capitalism was the conference theme of the 50th Annual Meeting of the World Economic Forum (WEF) in 2019. The theme came from the title of a 2011 Richard Florida book which addressed the future of cities in light of his theories of urban development and in context of the 2008–09 financial crisis. But the Great Reset as articulated at the WEF meeting and in a later book by the WEF's main organizer, Klaus Schwab, went far beyond Florida's ideas (Schwab & Malleraet, 2020). Great Reset proponents argue that the Covid-19 pandemic has opened a window of opportunity to implement a fundamental restructuring of the economy that changes patterns of influence and ownership in business, measures company performance in novel ways, and provides a stronger role for the state in shaping and guiding economic activity.

While the Great Reset is more of a broad vision than a carefully worked out plan, the idea of an opportunity and need for a massive overhaul of the world economy and the market system has been endorsed by the head of the International Monetary Fund, the General Secretary of the United Nations, the President of the European Central Bank, and the President of the EU Commission (Roth, 2021a).

Management academics have also endorsed the Great Reset notion and further suggested the need for a new management theory to accompany The Great Reset. Anticipating this theme, the Academy of Management chose "Capitalism in Question" as the theme of its 2013 Annual Meeting. But does management theory need to be reset? Are new, post-capitalism theories and frameworks likely to yield fruit? Even if one believes that the world economy needs substantial changes, is the current body of management thinking already up to the task?

The Great Reset has emerged as a general label for a series of connected major policy initiatives that, in the wake of the Covid-19 epidemic (Roth, 2021b), seek to address a series of ostensibly major global challenges related to stakeholder governance, sustainability, and innovation. In the words of the Call for Papers for this special issue, "this reset would imply the implementation of new institutional arrangements that steer markets towards fairer outcomes, incentivize investments towards shared goals, build and sustain greener infrastructures, and harness the momentum of the fourth industrial revolution for the resolution of pressing social, health, and environmental challenges, including climate change" (Roth, Czakon, Amann, & Dana, 2020).

What we might call "reset thinking" has a long history. Marx's ideas were embraced by those discomforted by the rapid industrialization of the 19th century, while Keynes's *General Theory* offered a "new

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economics" to explain the unprecedented global depression of the 1930 s. Naomi Klein (2020) argues that The Great Reset represents a "bastardization" of her earlier idea of the "shock doctrine," the claim that social and economic reformers (in her story, pro-market reformers promoting privatization and liberalization, which she opposes) take advantage of natural and man-made disasters to spread their doctrines.

More generally, global shocks are often seen as caused by previous social and economic systems which therefore need an overhaul (Higgs, 1987). For example, both world wars prompted major changes not just in international institutional arrangements but also in the politics and institutions of individual countries (Campbell, 2021). Thus, the First World War with its experience of the presumed effectiveness of war socialism led to a push towards the welfare state (Kuhnle & Sander, 2010). The Second World War caused even more state involvement at all levels in the economy, as politicians used the momentum and excess resources from the war effort to satisfy the electorate's preferences for more state-provided services (Nullmeier & Kauffman, 2010).

Interestingly, those "resets" were indeed accompanied by new thinking designed to justify the expansion of state power, such as welfare economics (Pigou, 1920), market failure theory (Bator, 1958), and Keynesian macroeconomics (Hansen, 1949). The editors of the present special issue suggest that The Great Reset would involve a change from a predominantly market-based society to "an interventionalist approach, which is complemented, on the theoretical level, by advocacy of a radical and irrevocable shift from shareholder to stakeholder management, and by the development and promotion of alternative environmental, social and governance (ESG) metrics on the methodological level" (Roth *et al.* 2020; see also Roth, 2021a). Some management scholars even call for (or, at least, are sympathetic with the view of) a profitless society where, rather than maximizing profits (or, at least, trying to), firms need to back the *desiderata* of some stakeholders—those categorized as "good" according to ESG metrics or other "ethical" categories—and leave aside the "bad" shareholders, typically depicted as greedy and ruthless (e.g., Parker, Fournier, & Reedy, 2007, 2014).

In this article, we offer a critical view of the Great Reset thesis, defined as the insistence on more government intervention in the innovation process through subsidy schemes or direct involvement, more emphasis on stakeholder capitalism brought about by a combination of legislation and pressure on business, and new metrics used to monitor private as well as public actors' performance with respect to sustainability, innovation, and stakeholder performance. The Great Reset thesis is a set of normative propositions, calls for a better world that supposedly should be championed by management scholars as well as political and business leaders and the public. While Great Reset proponents do not a call for eliminating markets or capitalism, they call for new, normative management theory that in many ways is inconsistent with the market economy in its current form. The Great Reset is not only about changing managers' objectives, beliefs, and actions, but also changing how organizations interact. In essence, calls for stakeholder management, new metrics for assessing social and environmental impact, and greater government intervention in markets to achieve social and environmental goals are closely related; they represent complementary arguments for restructuring the conventional capitalist model in which the means of production are privately owned and these owners—for large companies, shareholders—are responsible for managing their assets.

We argue that the Great Reset thesis is based on a fundamental lack of appreciation of the power of markets to bring about desirable social outcomes. In calling for a break with the traditional capitalist model, it leads to a world in which pressing social, environmental, and political challenges are exacerbated rather than alleviated. Moreover, the Great Reset thesis rests on a naïve conception of how governments work that neglects well-known problems concerning what governments (can) know, their incentives to take the right actions, and their vulnerability to rent-seeking on the part of organized special interests. It also mistakenly believes that the current system is a mostly unfettered market-based economy (e.g., Schwab, 2020) when, in reality, there is already massive government intervention—and, as a result, crony capitalism (Klein, Holmes, Foss, Terjesen, & Pepe, 2021)—in every major sector of the economy (Stiglitz, 1989; Majone, 1994).

At the firm level, the Great Reset thesis is similarly based more on a naïve belief in the benefits of stakeholder governance rather than a careful, sober analysis of the relative benefits and costs of alternative systems of governance, including shareholder and stakeholder models. As a large literature suggests, stakeholder approaches are plagued by unresolved (and perhaps unresolvable) problems of aligning the interests of multiple stakeholders with goals that cannot be aligned in the absence of a common scale of measurement (Jensen, 2004; Foss & Klein, 2018). The new proposed metrics will not solve these problems.

Moreover, implementing stakeholder management amounts to a dilution of ownership. Ownership is an economic function that can be performed better or worse, and the goal of an economic system should be to align ownership with ownership competence (Foss, Klein, Lien, Zellweger, & Zenger, 2021). Stakeholder management proposals risk putting ownership in the hands of less competent owners (Foss & Klein, 2018), which is particularly harmful under the conditions of high novelty, uncertainty, and complexity that characterize more innovative parts of the economy (e.g., Adams & Licht, 2011). In particular, as emphasized by Hansmann (1996), larger and more heterogeneous groups have difficulty exercising ownership rights, as diverging interests make agreement difficult, particularly where exit from the group is costly. Thus, even if we conceive of a community, society, or even the entire world population as the rightful "owners" of various public goods (e.g., environmental preservation), it doesn't follow that assigning ownership rights to everyone in the group will be effective in achieving the group's goals.

At the same time, concentrating more decision power in the hands of governments, implementing complex and diffuse metrics, and diluting ownership by groups high in ownership competence (typically, private investors) hampers the functioning of markets, allows for more crony capitalism, and reduces the resources that are available for fostering innovation and economic growth, the primary means of alleviating poverty, improving global health, and improving the quality of life. Leveraging management theory in the service of the Great Reset therefore risks being a harmful enterprise. We end by sketching an alternative market-based way forward.

2. The great reset, capitalism, and cronyism

2.1. The critique of existing capitalist organization

While the Great Reset is fundamentally a set of normative propositions—a call for large-scale political and corporate action in the service of broad, societal goals such as sustainability—it is based on underlying descriptive assumptions. The basic, and mostly unanalyzed, premise of the Great Reset is that the existing social organization of economic activities (imprecisely described as "neo-liberalism") has proven unable to deal with "grand challenges." These challenges include the Covid-19 pandemic (as well as future, as yet unknown pandemics), the alleged increase in worldwide inequality, the various climate challenges, and the supposed declining innovativeness of private business which translates into reduced ability to deal with the other challenges. In other words, the Great Reset thesis rests on a strong claim of what economists call "market failure" (mainly "externalities"; Bator, 1958; Zerbe & McCurdy, 1999).

Those who call for the Great Reset may not use this terminology. Instead, they criticize "capitalism" for causing inequality, making natural resources being too heavily exploited, failing to direct innovation in the best possible ways, ignoring sustainability concerns, and so on (World Economic Forum, 2020). Much of this critique lacks concreteness and is entirely "boilerplate." In particular, it is rarely explained how exactly "capitalism" does all these things; all are common to all known

forms of social organization. Economic activity is driven by human wants and needs and the ability of people to satisfy those wants and needs, given the constraints of scarcity, production, and knowledge. Capitalism is merely a way of dealing with these basic facts (although some may of course argue that capitalism creates "unnecessary" needs and wants). Many proponents of Great Reset thinking claim they are not against capitalism per se, just the forms of capitalism that are most common today.

Thus, the critique of capitalism is interspersed with the critique of neoliberalism which comes across as the politico-ideological superstructure to current capitalism. A recent short essay by a WEF associate announces the "end of neoliberalism" as policymakers need to act against increasing concentration of profits among a few industries, concentration of profits within industries (which, the author claims, are "hoarded" rather than invested), increased dispersion of wages within industries causing rising inequality, and increasing market power exercised by "platform companies" such as Alibaba (Buckup, 2017). All this sounds fairly damning and seems like a rehash of familiar Marxian themes. However, the author also tellingly notes that "as neoliberalism took hold, policymakers became less concerned about big firms converting profits into political influence, and instead worried that governments were protecting uncompetitive companies."

2.2. *Capitalism—properly understood*

What these critics are describing here is not capitalism but "cronyism" (Rubin, 2016). As Klein et al. (2021) argue, confusing capitalism and cronyism is a long-standing mistake. Classic proponents of the free-enterprise system such as Schumpeter (1942), Mises (1922), or Friedman (1962) describe capitalism as a mode of social organization which entails that (1) productive resources are (mostly) privately owned, (2) markets are used to allocate resources, products and services, (3) individuals and groups are (mostly) free to engage in economic activity without centralized control or interference from the state, and (4) institutions exist that enable (1) to (3), notably by making sure that property rights to resources are precisely delineated and enforced, which enables investments and make the costs of exchange relatively low (for qualifications, reservations, etc., see Klein et al., 2021). These are the "primitives" of capitalism as a system. Other oft-mentioned aspects (whether positive, negative, or purely descriptive), such as free movements of goods, capital, and labor across borders, are derived from these.

Critics of capitalism take for granted that capitalism is responsible for rampant pollution, increasing inequality, concentration of industries, and so on, but rarely engage in systematic, empirically grounded, comparative institutional analysis. Both theory and a careful study of the historical record suggest that non-capitalist systems experience these problems to a far greater degree than capitalist systems. For example, in a market economy, well-defined property rights can keep pollution and other sustainability issues under control (Rothbard, 1982); in contrast, the worst known cases of industrial pollution occurred in the twentieth century in the non-capitalist countries behind the Iron Curtain. Freedom of contract will secure dynamism and social mobility and thus counteract tendencies to concentration of industries and capital and increasing inequality (Dean & Geloso, 2021, Nikolaev & Bennett, 2016, Bennett & Nikolaev, 2016). Socialist economies, and capitalist economies characterized by a substantial degree of government intervention, experience stagnation and social strife.

The basic vision outlined by the above thinkers has been remarkably correct when applied to the economic history of the last two hundred years. Whenever capitalist principles have been applied they have tended to bring prosperity, education, improvements in health, and equality of opportunity (Leeson, 2010). The wealth generated by the operation of free markets provide the resources needed to deal with many environmental issues. Defining property rights to hitherto unowned resources, that is, pollution rights and making these tradeable has become an instrument of allocating such rights to their highest-valued uses and stimulate innovation in technologies that reduce CO_2 emissions. Free markets and borders that are open to the movement of products and services enable the diffusion of such technologies. In short, free markets have increasingly been instrumental in dealing with ecological challenges. Among the various socio-economic systems, it is clear that "capitalism comes closest to meeting the conditions of efficiency and maximum well-being, even if no capitalist economies meet these conditions perfectly" (Klein et al., 2021).

2.3. *Cronyism*

What the critics essentially address and what calls for a Great Reset reflection are, as we see it, the aberrations of capitalist principles known as "cronyism." Cronyism emerges because of voids in the institutional frameworks that support productive activities in a capitalist economy, and basically means that private actors pursue rents, not by competition in the marketplace but by exploiting political connections. Such rents may come in the form of monopoly rents from permits, licenses, legal protection and the like or targeted tax breaks, loans, grants, etc. that are available to some but not to others. Industrial planning and "winner-picking" easily devolves into cronyism. The means to achieve these advantages range from lobbying politicians and government officials to outright bribery.

Cronyism leads to many harmful consequences. Resources are invested in political competition rather than competing to satisfy customer wants. The dynamic market process which sorts among companies in terms of the ability to satisfy such wants is hampered, while politically favored firms thrive and grow at the expense of those without political connections. Favored incumbents have a strong incentive to further exploit their political connections to curb innovative entrants, foreign entry, or startups within their industries (Holmes, Miller, & Hitt, 2013; McMullen, Bagby, & Palich, 2008).

Cronyism has direct negative consequences in the form of distorted resource allocation, productive inefficiency, as well as long-term harms from suppressing new ideas, innovations, products, services, and processes and sending signals that the political process is unfair, unpredictable, non-transparent, and catering to the interests of a narrow elite. Alesina and Angeletos (2005: 913) argue that widespread cronyism makes people believe that wealth is mainly determined by corruption, discouraging entrepreneurial activity, reducing saving and investment, and thus reducing economic growth and government revenues. Cronyism is also associated with many of the negative social outcomes that are often highlighted by organizations such as WEF: cronyism has been linked to less effective protection of the natural environment (Duflo, Greenstone, Pande, & Ryan, 2013), negative health outcomes (Halleröd, Rothstein, Daoud, & Nandy, 2013), and lower-quality infrastructure. It should be clear that at least part of the critique of existing "neoliberal" capitalism isn't a critique of capitalism per se but rather of cronyism.

2.4. *The great reset as a cause of more cronyism*

Great Reset proponents see "capitalism" as an outdated, inefficient, and unjust system and want its current "neoliberal" manifestation supplanted with a much more regulated system. However, as we have argued capitalism simply means that most means of production are privately owned, that unhampered markets are used to allocate resources, and that there are high levels of economic freedom because state intervention is relatively limited. Economies organized on these principles also tend to be associated with high levels of social and political liberty. In such a system, firms concentrate on learning how to better serve customers. If customers want firms to produce more "socially responsible" products and services (and we certainly don't deny that huge segments among modern customers and consumers hold such preferences), that is what firms will do. Not so in a cronyist system

where the attention of managers is focused instead on winning favors with bureaucrats (lucrative contracts, network connections that may be of value in the future, harm done to competitors, privileges and even monopolies). Consumers lose directly because their interests and preferences may be overridden in favor of the preferences of bureaucrats and politicians. The wrong goods and services are produced and resources are spent on influencing public decision makers. Again, what is criticized by the critics of "capitalism" is in actuality "cronyism" (see also Klein et al., 2021).

Research on cronyism suggests that economies with high levels of government engagement with the economy are likely to exhibit particularly high levels of cronyism. There are reasons to expect a Great Reset to result in more cronyism. A recent WEF (2017) proclamation says that.

Public-private cooperation needs to be stepped up to accelerate action required to achieve the Sustainable Development Goals (SDGs) by 2030 … Stefan Löfven, Prime Minister of Sweden, told participants "Goals matter. If we are to succeed, we also need business, academia, civil society and trade unions. There will be no progress without public-private cooperation. This is a business case. This will boost our innovation capacity. Innovations are crucial for the transition to a new sustainable society."[1]

This and similar proclamations are oblivious to the potential dangers of public-private partnerships. While such partnerships can upgrade existing and build new innovation capabilities within some areas, they also make it more attractive to be a politically connected firm. This is not just a matter of getting access to resources such as public research funds; it is also a matter of gaining influence that can be leveraged in the service of curbing the influence of rivals.

In short, cronyism causes real social and economic harms, including those that catch the attention of Great Reset proponents. Ironically, many of the reforms associated with Great Reset proposals—substantial public-sector investments in "green" technology, an increased use of public-private partnerships, greater government involvement in the innovation process, and a move from market-based to vague, complex, and politicized measures of company performance—will lead to more cronyism and are thus self-defeating.

2.5. The impracticability of stakeholder management

An often-criticized part of "neoliberal" capitalism is the shareholder view. As Ciepley (2019: 276) explains:

The neoliberal corporation is a novel theoretical and organizational construct that treats the pecuniary interests of shareholders as the sole end of the corporation and gears corporate governance toward maximizing shareholder returns against the assumed opportunism of managers and workers. This construct originated in the post-war neoliberal effort to revive free market principles, which the rise of the monopolistic corporation appeared to have rendered obsolete.

The Great Reset thinking explicitly breaks with this view and instead highlights a stakeholder view of corporate governance which takes a more expansive view of the set of groups and individuals that should somehow have a say in the governance of the firm. In the US, 181 corporations agreed that they would change and contribute to changing their corporate governance models from shareholder models to stakeholder models at the August 2019 Business Roundtable. The Roundtable's "Statement on the Purpose of the Corporation" includes a long list of stakeholders, all of whom must be satisfied (apparently in a way that they aren't now), including "meeting or exceeding customer expectations"; "investing in our employees," which means "compensating them fairly and providing important benefits" and allowing them to "develop new skills for a rapidly changing world"; "dealing fairly and ethically with our suppliers"; "supporting the communities in which we work"; and "generating long-term value for shareholders." The Statement lacks concreteness (why just these groups and not others?) as well as awareness that the interests of these various groups may not be perfectly aligned, thus requiring some assessments of tradeoffs and a means to compare competing claims. In short, satisfying a collection of heterogeneous stakeholders, especially in a dynamic setting (Klein, Mahoney, McGahan, & Pitelis, 2019), is extremely complex.

Not surprisingly, given the vagueness of the Statement, the signatories seem to have done little to change their corporate governance model following the very public signing. However, the deeper problem is that stakeholder capitalism faces several deep challenges. As Foss and Klein (2018) argue the key challenge is to precisely conceptualize, address, and answer the questions of who the firm's stakeholders are and what rights they should have (cf. Donaldson & Lee, 1995). These are fundamentally issues involving *ownership*. Stakeholder theory asserts that shareholders usually are not the legitimate owners (or at least, not the only legitimate owner group). Other stakeholder groups are also in a position to possess rights to make decisions over the assets of the firm and derive income from them in ways that go beyond the decision and income rights afforded to these other stakeholder groups under a shareholder regime. This is typically argued on both ethical and practical grounds. However, the ethical issues are complex and empirical evidence on the effectiveness of stakeholder management is far from clear. The grounds on which the issues should most naturally be argued—namely, theories and evidence of the nature and consequences of ownership—aren't central to stakeholder theory.

Thus, answering the questions of who the firm's stakeholders are and how much of the created value they are entitled to is hampered by the absence of clear criteria for identifying the firm's stakeholders, principles for specifying which rights stakeholders possess, and a general organizing framework that allows for clear answers to these fundamental questions (Foss & Klein, 2018). Scholars in stakeholder theory are certainly aware of the challenges; Mitchell, Aigle, and Wood (1997) argue that stakeholders can be categorized on the basis of how strongly they can impose their will on the firm (i.e., "power), the "legitimacy" of their claims, and the centrality or "urgency" of their positions. The juxtaposition of these dimensions result in eight types of stakeholders and allows Mitchell et al. (1997) to discuss stakeholder impact on firm performance. Asher, Mahoney, and Mahoney (2005) argue that stakeholder claims should be prioritized according to the level and marginal impact of each participant's relationship-specific investment, with Barney (2018) adding that, in the absence of such a rule, the firm cannot engage in maximum value creation.

Note that none of the dimensions touches directly on "competence," specifically the skill possessed by different stakeholder groups in exercising the ownership function. Foss et al. (2021) conceptualize the notion of *ownership competence*—the skill with which ownership activities are performed. Why may stakeholder groups differ in such ownership competence?

Hansmann (1996) examines differences in ownership models by focusing on different forms of cooperation. The classical cooperation is a "capitalist cooperative" or "lender's cooperative," based on collaboration and pooling of interest of capital suppliers. There are also workers' cooperatives (e.g., employee-owned firms), buyers' cooperatives (patron-owned grocery stores or insurance companies), and so on. Different stakeholder groups may thus own the equity. Each ownership arrangement has benefits and costs. The optimal arrangement depends on the characteristics of the firm's resources and markets and the characteristics of potential owner groups. A key factor highlighted by Hansmann is the extent to which group members have similar interests, as this influences the transaction costs of collective decision making. For this and other reasons, some owner groups may be better than others at minimizing agency costs. For example, owners of capital may be particularly good at monitoring management. They may also be better able to shoulder the risk associated with ownership (Foss & Klein, 2018).

While the stakeholder literature has focused on identifying the

[1] https://www.weforum.org/press/2017/09/public-private-cooperation-will-speed-progress-towards-sustainable-development-goals/

potential benefits of including a broader, more diverse set of voices in corporate decision-making—for example, recognizing values and interests that might otherwise be neglected, inducing non-owner stakeholders to make co-specialized investments (Asher *et al.* 2005; Barney, 2018), having more strategic options to choose from—it has tended to neglect the costs of additional complexity and heterogeneity, particularly under conditions of Knightian uncertainty (Foss & Klein, 2018). Of course, this doesn't mean that large, complex, heterogeneous groups should never exercise ownership, only that the advantages of such an ownership structure most be substantial to overcome the drawbacks.

Nonetheless, this line of reasoning suggests that the most common arrangement for large firms of assigning ownership to equity holders happen for very good reasons. Members of this owner group have relatively homogeneous interests, namely maximizing the value of the firm's equity! In contrast, in a worker-owned firm, for example, individuals may have different and potentially conflicting interests (i.e., they may want to increase profits but also improve work conditions) and there are likely to be conflicts between workers depending on, for example, age (e.g., younger workers may want more of cash flows to be invested, while older workers may prefer that they are turned into higher payrolls).[2] There are many other difficulties associated with the stakeholder view (e.g., Vilanova, 2007; Cennamo, Berrone, & Gomez-Meija, 2009; Lopez-De-Pedro & Rimbau-Gilabert, 2012; Foss & Klein, 2018), but they all lend credence to the shareholder view that most of the firm's stakeholders are usually best off protecting their economic interests through law and contract, not through ownership (Jansson, 2005). This is particularly likely to be the case under uncertain conditions, such as in innovative settings. Indeed, Adams, Licht, and Sagiv (2011) find that "Directors and CEOs are more pro-shareholder the more they endorse entrepreneurial values."

Similar observations apply to the corporate social responsibility (CSR) agenda which is also being promoted under the Great Reset label (Schwab & Malleraet, 2020; Roth, 2021a, b). Like stakeholder management, CSR and social responsibility models dilute the ownership function, empowering non-owners to make decisions inconsistent with owners' wishes.

It is important in this connection to comment on the common belief that critiques of CSR approaches imply that financial objectives are somehow always more important than so-called "social" goals (meeting customer preferences is also a social goal, by the way). This belief is often based on a misreading of Friedman's (1970) famous essay. Contrary to the misreading, Friedman basically made the point that owners, not managers, should decide what socially responsible activities must be pursued. The problem as he saw it was that tasking managers with socially responsible activities could lead to an agency problem, with managers using firm resources in ways that managers would dislike. He didn't object to socially responsible behavior as such, but to managers using owners' funds for socially responsible behavior without consent.

On this line of reasoning, and also drawing on the ideas on ownership competence we sketched above, the best way to organize socially responsible activities is usually to let owners of capital control the company, have managers seek to maximize profits, and then let owners (as well as other stakeholders who are better off under this organization) pursue nonfinancial objectives using their share of the created value (e.g., by shareholders spending their dividends and capital gains). Allocating ownership to those most competent to own and pursuing profit maximization maximizes the creation of value overall (Jensen, 2002; Foss et al., 2021)—which means there is also more to spend on socially responsible objectives.

There may be exceptions to this, as Foss and Klein (2018) point out, namely when owners explicitly delegate the right to engage in socially responsible activities to managers. And, of course, there is a literature that points out that "purpose" and "profitability" can often be combined (e.g., Birkinshaw, Foss, & Lindenberg, 2014) if CSR activities and profit-making activities are interdependent. For example, if there are economies of scale between achieving the socially responsible objective and the firm's regular operations, then the firm can pursue CSR more effectively than shareholders acting privately or through a nonprofit (Hart & Zingales, 2017). One problem, however, is that claims of such interdependence are subject to manipulation, similar to claims by empire-building managers that yet another acquisition will further increase "synergies." At least some CSR activities may be akin to "synergies" in this respect: managers may invest in CSR activities that primarily make them look more virtuous or even increase their personal wealth (e.g., they become more attractive to companies looking for virtuous CEOs). Given information asymmetries between owners and managers, it is not surprising if the former insists that the latter pursue the objective of shareholder wealth maximization. If they don't, they will still need to figure out how to assess if managers' preoccupation with CSR activities also raises owner wealth, which in practice is very hard to figure out.

2.6. *The folly of nationalizing the innovation process*

The Great Reset thinking is in many ways a synthesis of a number of streams in politics and normative social science that were previously treated independently. For example, proponents of stakeholder capitalism and those who see capitalism as responsible for the alleged environmental crises were usually voicing their concerns to different audiences and in different outlets. The Great Reset notion uses the pandemic as a focal point for coordinating these diverse political/normative streams. This is also true for the call for more government involvement in the innovation process (Block & Keller, 2011). For example, writers such as Schwab and Malleraet (2020) and Florida (2011) call for more and better innovation to address the many issues highlighted under the Great Reset notion.

While innovation in the civilian sector results from the efforts of private firms, activist-academics like Mariana Mazzucato (2013) have argued that entrepreneurs and private firms jump in the innovation process quite late, that is, when the state has done the "dirty job" (Klein, 2015). This argument is in line with the 2012 Obama's (in)famous remark to entrepreneurs: "You didn't build that!" These academics call for increased public-sector engagement in knowledge production and innovation, arguing that the state must go significantly beyond "merely" funding basic scientific research to also finance, direct, and shape private, commercial research and development (R&D). What unites these calls is the belief that the state can play a major entrepreneurial role to stimulate economic growth, productivity, and social welfare via innovation, thus preserving or enhancing national competitiveness in international markets. At the same time, the above calls argue that the state is the only entity able to address the presumed adverse effects of growth such as unemployment and climate change.

Critics such as Mazzucato maintain that, while economic growth and social welfare is driven by innovation, the state must intervene to prevent private actors from extracting too much value from their own innovations. This argument relies on four important assumptions. First, Mazzucato sees value extracted by private innovators as a rent, not a premium for their efforts and investments. In this perspective, entrepreneurs are myopic and must be prodded by the benevolent Leviathan to take a "patient," long-term perspective. Even using the Ricardian role of rentiers as responsible of economic stagnation, the modern state is itself a rentier, a much larger one than entrepreneurs or large firms and one that bears little risk (unlike private capital, taxpayers' money is always available). Moreover, the claim that innovators appropriate too much value from innovations with high social benefits is hard to square with the conventional notion that, in the face of positive spillovers, there

[2] In the limit, if we include all members of society in the set of relevant stakeholders, we no longer have a market-based economy, but a socialist economy which—as famously demonstrated by Mises (1920) and Hayek (1945), among others—has no means of allocating resources efficiently.

is too little innovation in R&D (Arrow, 1962)!.

Second, these criticisms view the state is a priori entitled to appropriate a part (which? Half? 90%? 100%?) of the innovation's value because of its "dirty job." An example highlights the inconsistency of this argument. Suppose a firm that produces mobile phones uses a natural resource to create a specific component. The firm can buy the natural resource and make the component in-house or buy from an outside supplier. Either way, this process is facilitated by market transactions, either in the market for the resource or the market for the finished component. Assume the state owns the natural resource or the supplier producing the component is a state-owned firm. In both cases, the firm has paid a price to the state for its contribution to innovation (i.e., owning the natural resource or contracting with the supplier). An entrepreneur or group of entrepreneurs perform the central role of combining resources and bearing the uncertainty associated with value creation (production takes place before the product is offered and promoted to consumers, who may or may not buy the product). Why should the state be entitled to a share of the created value? A typical answer is that the entrepreneur is leveraging prior investments, infrastructure, institutions, education, etc. provided by the state. And yet, the entrepreneur, the investors, and other stakeholders have already paid for these, in the form of taxes, credit expansion, or however else the state funds its expenditures. Why should the innovator pay an additional "tax" on innovation?

Third, critics argue that, because of the background, public investments allegedly underlying private innovation projects, as well as targeted innovation programs, the downside risks of innovation are partly socialized. Shouldn't the upside benefits be socialized as well? This argument begs the question of why the state should be financing innovation, displacing private and more competent investors, in the first place. Fourth and more worrying, Mazzucato's entrepreneurial state is picking socially productive activities. The state has to engage in mission-oriented policies and orient private investments towards specific areas and industries decided and identified by the government—the key message of Mazzucato when she was consultant for the Italian government led by the populist Prime Minister Conte.

In sum, the purpose of the entrepreneurial state is not just to shape technologies, but also to directly control, create and shape new markets (and even destroy markets and businesses considered as unproductive by the Leviathan). Mazzucato's work has mainly been influential in Europe, but there are also increasing calls in the US for a more active role for government in the tech sector. It is easy to see that this fits within the Great Reset mélange.

A basic problem with these arguments is that they fail to confront incentive and information problems facing public actors that have been familiar to economists in particular (but not exclusively) for decades. Public actors have historically acted as monopolists in the provision of several products and services and, as a rule, government decision makers lack the high-powered incentives and access to the specialized knowledge held by market participants, making it difficult for them to choose among competitive technologies. Moreover, public actors do not directly bear the risk of bad decisions. While they can take credit for creating value by cherry-picking high-quality projects, funding companies and technologies that would have been successful anyway, hence wasting public resources, they can also blame failures on short-sighted private investors who fail to supply the complementary private capital. Obviously, the loss of money used to finance these failing projects is borne by the taxpayers, and not directly by the public actors.

Government officials and politicians rarely act as benevolent planners: they seek to maximize their private interests (e.g., influence or votes in the case of politicians). They don't seek to maximize profits in the marketplace as they don't directly join the returns of these positive states of nature (probably only politicians in the form of arguments to be used in the political campaigns). Proponents of the Great Reset have not explained how short-sighted bureaucrats and politicians with objectives that likely differ from that of the electorate can bring about successful tech entrepreneurship, and more in general innovation, that will facilitate the various Great Reset goals. Of course, the historical record is not comforting, with ample evidence of the failure of government-led innovation programs such as Minitel (in France), Solyndra (in the US), and Universal Credit (in the UK), among many other examples (Datta-Chaudhuri, 1990; Helm, 2010; Keech & Munger, 2015).

2.7. *The role of management theory*

Traditionally, management theory has respected a division of labor among the social sciences in which it handled the "micro-issues" on the level of organizations and economics, sociology and so on would handle the "big" issues of economic policy, institutional design, inequality, and the like. However, over the last two decades, management scholars have increasingly articulated a desire to influence public policy to a larger extent (e.g., Rynes & Shapiro, 2005 and other contributions to the *Academy of Management,* Vol. 48, No. 6 special research forum on public policy; Cummings, 2007; Kochan, Guillen, Hunter, & O'Mahony, 2009, and other contributions to the *Academy of Management,* Vol. 52, No. 6 issue on public policy and management research; see also Aguinis, Jensen, & Kraus, 2022). Increasingly, the previously existing division of labor has been breaking down as research on CSR and stakeholder management explicitly include public policy and social welfare considerations (e.g., Arragon-Correa, Markus, & Vogel, 2020) and as the role of policies and institutions in shaping firm strategies and behaviors are increasingly addressed in fields such as strategy (e.g., Arragon-Correa & Sharma, 2003), international business (e.g., Petricevic & Teece, 2019), innovation (e.g., Liao, 2018), and entrepreneurship (e.g., Webb, Khoury, & Hitt, 2020).

Critiques of capitalism as a system of organizing productive activities and as a moral system are not limited anymore to the small so-called "Critical Management Studies Division" of the Academy of Management (https://cms.aom.org/home), but are voiced across the Academy (e.g., Davis, 2016; Fotaki & Prasad, 2015; Tsui, Enderle, & Jiang, 2018). In this regard, it is probably telling that the theme of the 2013 Academy of Management conference was "Capitalism in Question." The conference was chaired by Paul Adler who has recently authored *The 99% Economy: How Democratic Socialism Can Overcome the Crises of Capitalism* (Adler, 2019), arguing that there is a "need to replace private ownership of enterprise with socialized, public ownership."

Of course, broadening the domain of application of management theory beyond its original concern with organizations and their management does not logically entail that management theory needs a great reset in terms of building new theory that is more fit for various alleged new challenges. And yet, a number of scholars have called for a radical change, perhaps even a reset, of management theory. Thus, one of the editors of the present Special Issue argues that we can view "politics, economy, science, health" as distinct "function systems" that change "from context to context and over time," implying that "Management and organization theories, which are by default geared to economic and political issues, are thus likely to produce caricatures of their research domains that systematically exaggerate the significance of these two subsystems and underestimate the role of all others" (Roth, 2021a). Put differently, he calls for an improved understanding of interlevel relations (e.g., politics and business) and in general less "sealing off" between phenomenal domains (e.g., health and management).

Others argue that while business schools must further change their priorities and missions to "respond to the pace of change in technology, competition and social expectations" and that COVID-19 has provided impetus to rise to the call for business to lead social change" (Kelly & Dodgson, 2021), there isn't necessarily a need to develop new theory. Along such lines, Williams and Whiteman's (2021: 526) argue that "our focus must move away from a theory-fetish toward a more applied action orientation that contributes to theory-building but does not make that its main or singular aim" and that management research needs to focus more on "how our organizational and management theories can

contribute concretely to helping humanity prepare for and respond to these shocks and build long-term societal resilience." Delivering in these dimensions does not require the creation of new theory or a fundamental rethink of existing management theory. The body of thinking across the various social sciences is, we argue, sufficiently robust and adaptable to cope with the major management issues of the 21st century.

Thus, existing thinking on real options (Trigeorgis & Reuer, 2016), dynamic capabilities (Teece, Pisano, & Shuen, 1998), strategic (Hitt, Ireland, Camp, & Sexton, 2001) and institutional (Garud, Hardy, & Maguire, 2007) entrepreneurship, and business ecosystems (Jacobides, Cennamo, & Gawer, 2018) are examples of (macro management) research that is helpful for understanding how firms can deal with "grand challenges" such as poverty alleviation, inequality, environmental protection, and so on.[3]

These challenges are not only "grand," but also "systemic" in the sense that dealing with them necessitates multiple complementary investments (as a in business ecosystem) brought about by institutional entrepreneurs exercising dynamic capabilities and entrepreneurial judgment in response to the high levels of uncertainty implied in addressing the challenges.

Identifying, addressing and resolving societal "grand challenges" is inescapably tied up with politics. Calls for addressing these changes are articulated in the political process, both by constituents and political decision makers, and firms that seek to address the challenges will both be subject to political pressure and will seek to garner political and economic support from the political system. As we have argued, in this situation, the danger of a more cronyist economy is immanent. Firms are likely to use their involvement in dealing with "grand challenges" to build influence with politicians and bureaucrats and gain privileges that are not available to competitors. Research on cronyism is a major field of study (see references in Klein et al., 2021) which is well positioned to analyze the dangers of cronyism and to help us build institutions, policies, and practices to de-politicize the allocation of resources and the processes of innovation and entrepreneurship.

3. Conclusions

We applaud the increasing interest among management scholars for social, political, and cultural relevance. As Roth (2021a, b) rightly notes, the system constituted by organizations and companies cannot be sealed off from technological, political, health-related, and cultural systems; these systems are interdependent and interacting. It should be uncontroversial to argue that management scholars have fundamental insight to offer regarding, for example, the working of decision-making processes in politics and in the government section, the drivers and hindrances of implementation of economic policy, the criteria used for assessing policy outcomes and initiatives, and much else (see Galdón et al., 2022).

We are confident that established thinking in management theory can address these aspects as the apply to our post-pandemic world and that no major reset of management thinking is required. In fact, we think a Great Reset of management theory is likely to do more harm than good, as it is hard to see how such thinking can avoid becoming a facile and opportunistic instrument in the hand of public policy makers. While indeed management theory should be responsive to major challenges and in general aim at helping decision-makers, there is always a risk of management theory becoming ad hoc justification of misguided decision making, instead of frameworks and tools for evaluating the relative merits of alternative policies and institutions. We are worried that calls for a great reset of management theory will end up with exactly such opportunistic, legitimizing "theory."

Moreover, as we argue above, Great Reset thesis itself is fundamentally misguided, so there is no need for a management theory reset to accompany it. To be sure, our current, mostly market-based economy (call it "neoliberalism" or "the Washington Consensus" or "democratic capitalism") is hardly perfect (Rajan & Zingales, 2005; Goldfajn, Martinez, & Valdez, 2021; Monga, 2021). But it is far better than the economic system Great Reset proponents appear to have in mind, one in which the state plays a greater role in the economy; firms are evaluated by vague, complex, and politically defined performance criteria; and competitive forces that tend to direct resources toward more competent owners are replaced with socialized, politicized decision-making. Comparative institutional analysis suggests that these moves will exacerbate, not alleviate, concerns about the environment, inequality, stagnation, and so on.

Instead, policy reforms should focus on cronyism and ways to eliminate, or at least reduce, attempts by politically connected firms to gain advantages in the marketplace by partnering with the state. Call it a Modest Rest, if you like. Markets and competition can handle Grand Challenges, as they have for centuries—if we get rent-seeking firms and political interference out of the way.

CRediT authorship contribution statement

The authors contributed equally to the writing of "THE ECONOMY DOESN'T NEED A RESET, AND NEITHER DOES MANAGEMENT THEORY".

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[3] There is also a micro management angle as dealing with "grand challenges" may require new managerial mindsets, new incentives and rewards, and new ways on connecting employees inside companies.

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