The Changing Role of Business in Society[1]

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Abstract

Business interaction with the U.S. government, historically based on securing industry or company special interests at the expense of the public god, has enabled and furthered government dysfunction. Gridlock within the American political system has precluded the enactment of badly needed policy solutions, which exacerbates Americans' declining quality of life, as measured by the Social Progress Imperative's Social Progress Index.

In previous work with Katherine Gehl, I explain that the U.S. political system operates as a duopoly, which enables unhealthy competition based on ideology rather than policy solutions. I now expand on this thesis to explore the complicity of business, which is the main funder of the U.S. political system, in enabling duopolistic competition, which has worsened citizen quality of life and harms U.S. competitiveness, and the overall business environment. Put simply, government is not working for anyone.

Encouragingly, business is beginning to accept its responsibility to society. The very nature of business competition is shifting, as companies work to address social and economic needs through profitable business models, thereby creating shared value.

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1. The U.S. is Facing Major Social and Economic Development Challenges; Business Must Change its Role

The U.S. is facing increasing social and economic development challenges. Since the 1970s, unhealthy competition in our partisan political system has led to sustained gridlock and lack of policy improvements that are badly needed, all exacerbated by the highly partisan 2020 Presidential election. Congress is failing to deliver the practical, consensus-based legislative progress of earlier eras, resulting in rising inequality and growing social problems such as declining public education, high cost health care, an unsustainable Federal budget, racial inequity, and the lack of a sound skilled immigration policy to attract the best and brightest to America, among others. Business, the largest funder of both Democratic and Republican politicians, is not holding government accountable for results. Because of government's failure to advance social progress, business has begun to understand that the nature of business competition, and capitalism itself, must shift and companies must step in to address social policy problems where government policy has failed.

Our political system is not constructed today to address citizen needs. In order to please each major party's partisan base, both parties adopt opposing stances on societal issues and are unwilling to compromise. This has rendered our government unable to advance badly needed commonsense policy solutions.

Even though business has been the major funder of our political system, business has had tunnel vision in its political involvement that has eroded the profit opportunity and climate for business (see Figures 1 and 2). There is an urgent need for business to change its historical government affairs approach to engage with government to demand better government policies and hold the political parties accountable.

As a result of these shifts, we are right in the middle of what I believe is the greatest transformation in business thinking and practice in many years. The nature of business competition is shifting. Business is realizing that it must directly engage with both economic policy and social policy in order to advance lagging social progress, upgrade the business environment, and improve business performance. We will describe how these remarkable changes are already underway.

2. A Deteriorating U.S. Business Environment

For much of our country's history, America's democracy, and our political system, were strengths, creating opportunity for most citizens (the so-called American Dream). Historically, American businesses also enjoyed a competitive business environment, with high-quality public schools, world class universities, technological leadership, and many other strengths. The result was economic mobility and citizen opportunity. However, there are growing needs and pressures today for business to improve the opportunities and wages for employees, many of whom are facing mounting economic stress. These pressures arose early in the 1970s, when our two dominant parties began to compete on extreme partisanship and special interest ideology, rather than delivering sound, consensus public policy solutions [*The Politics Industry*, 2020].[2]

The failure of politics has come at a steep cost to business (see Figure 1). Critical social challenges, such as eroding public education compared to other countries, obsolete physical infrastructure, lagging workforce skills, the lack of a sound skilled immigration policy, high cost health care with inadequate insurance, and others have inflicted adverse effects on business, and contributed to declining U.S. competitiveness.

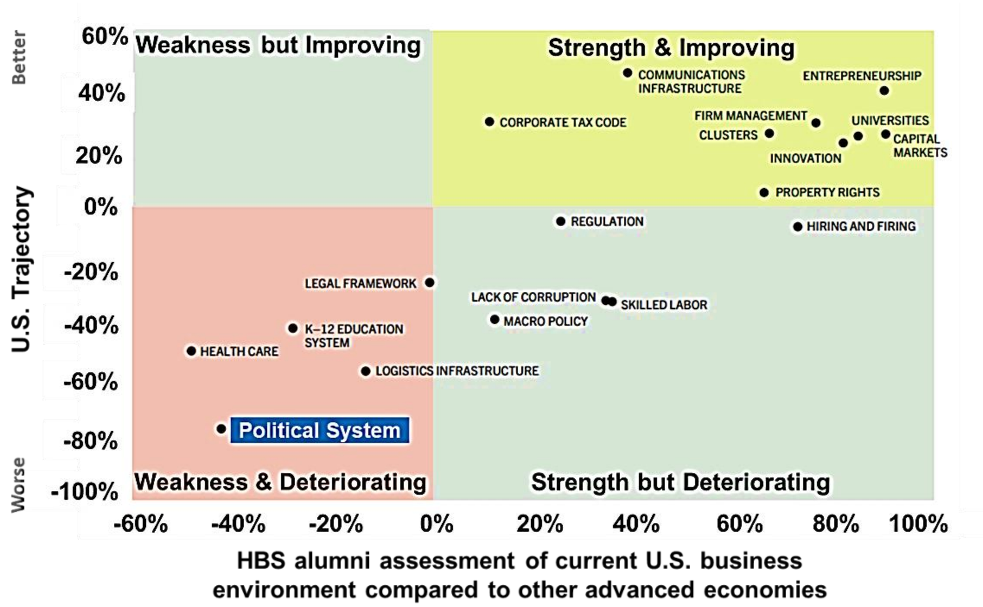
Not only has the American economy failed to keep up in recent decades, but our fiscal deficits are beyond prudent levels, infrastructure is crumbling, and outdated immigration policies now deter the best and brightest from immigrating to the U.S., eroding our workforce. Findings from Harvard Business School's U.S. Competitiveness Project,[3] a multiyear research effort drawing on surveys of Harvard Business School alumni, revealed declining economic competitiveness. Forty eight percent of the HBS alumni surveyed expect U.S. competitiveness to decline even further. Business leaders also saw further deterioration in the effectiveness of our political system, the quality of U.S. health care, and the quality of K-12 education, among others. While the U.S. has retained strengths in areas such as management quality, entrepreneurship, and universities, there is also an erosion in skilled labor (see Figure 1).[4]

Given the erosion of social policy, business leaders ae now expected to speak out about how they improve communities, create citizen opportunity, provide training and support for individuals and families, and make the quality of life in communities better.

Business has not historically been focused on such areas. Instead, most businesses lobbied government to support industry or company special interests, including reducing regulation. Instead of pressuring government to mobilize much needed infrastructure investments, business allowed Congress to implement poorly designed tax cuts that favor corporations and higher income citizens, which increased inequality and the deficit. Instead of solutions to climate change, the Trump White House engaged in a years-long effort to cut back emissions standards for cars, and oppose new renewable energy sources, an approach that many citizens, and automakers themselves, strongly opposed.[5]

Such behavior has only further eroded public support for business. Today, businesses are realizing that they must re-think how they compete, and *need to better engage and partner with government to address the social problems that are strongly affecting business and citizen economic opportunity.*

Figure 1: Eroding U.S. Competitiveness, 2011-2019[6]

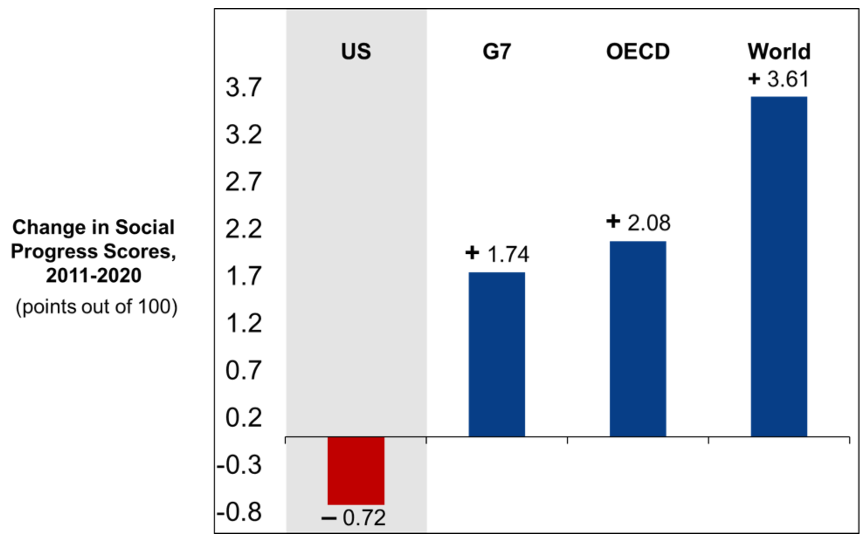


Note: Areas of competitiveness presented in Figure 1 are scored as a percentage of respondents to the HBS 2019 U.S. Competitiveness Survey with positive views, minus the percentage with negative views. Calculations exclude respondents who answered "Don't know."

Eroding U.S. Social Progress

Out highly partisan political system has not only failed to deliver sound economic policy, but also eroded U.S. social policy. There is now rigorous and objective data available that shows that the U.S. is lagging on social progress compared to virtually every other advanced nation (see Figure 2). The Social Progress Index, published annually since 2013, employs numerous social, quality of life, and environmental indicators to compare U.S. social progress to 162 other countries.[†] With a traditional high quality of life for U.S. citizens, our eroding social progress represents a striking failure for one of the world's highest income countries.

Figure 2: Lagging U.S. Social Progress Relative to Other Regions and Countries[7]



The failure of our political system to advance the social progress needed to improve economic and social opportunities for citizens is striking. The US is one of only three countries globally, along with Brazil and Hungary, to have actually ***declined** on social progress since 2011.*

As shown in Figure 3, major areas of U.S. weakness are health and wellness, inclusiveness, racial discrimination, unequal opportunity, rising emissions, eroding environmental quality, the lack of personal safety, limited access to basic knowledge, and worsening quality of public education. These go against what America has long stood for.

[†]The Social Progress Imperative, the non-profit that has compiled country social progress performance since 2011. Methodological improvements in 2020 have enabled the comparison of country data over time.

Figure 3: U.S. Social Progress Ranking Versus 162 Other Countries, 2020[8]

	INDICATOR or CATEGORY	SCORE/VALUE	RANK (of 163)
🔴	**Overall Social Progress Score**	**85.71**	**28**
	GDP per Capita	**$62,683**	**8**
🔴	**BASIC HUMAN NEEDS**	**92.08**	**34**
🔵	**Nutrition & Basic Medical Care**	**97.61**	**29**
🔴	Maternal Mortality Rate (deaths/100,000 livebirths)	29.34	73
🔴	Child Mortality Rate (deaths/100,000 livebirths)	6.53	45
🔵	**Water and Sanitation**	**98.97**	**24**
🔴	Populations Using Unsafe or Unimproved Sanitation (%)	2.91	41
🔴	**Personal Safety**	**73.82**	**57**
🔴	Homicide Rate (deaths/100,000)	4.96	95
🔴	Traffic Deaths (deaths/100,000)	12.20	76
🔴	**FOUNDATIONS OF WELLBEING**	**83.14**	**37**
🔴	**Access to Basic Knowledge**	**92.42**	**44**
🔴	Access to Quality Education (0=unequal, 4=equal)	2.23	91
🔵	**Access to Information & Communications**	**93.30**	**11**
🔵	Media Censorship (0=frequent, 4=rare)	3.20	45
🔴	**Health and Wellness**	**74.66**	**42**
🔴	Life Expectancy at 60 (years)	23.27	41
🔴	Premature Deaths from Non-Communicable Diseases (deaths/100,000)	282.19	54
🔴	Access to Quality Healthcare (0=unequal, 4=equal)	2.04	97
🔴	**Environmental Quality**	**72.18**	**119**
🔴	Biome Protection	9.14	122
🔵	**CITIZEN OPPORTUNITY**	**81.89**	**14**
🔴	**Personal Rights**	**90.84**	**36**
🔴	Political Rights (0=no rights, 40=full rights)	33.00	64
🔵	Freedom of expression (0=no freedom, 1=full freedom)	0.90	36
🔴	Property Rights for Women (0=no right, 5=full rights)	4.61	57
🔵	**Inclusiveness**	**61.24**	**35**
🔴	Discrimination & Violence Against Minorities (0=low, 10=high)	6.20	100
🔵	Equality of Political Power by Gender (0=unequal, 4=equal)	2.43	45
🔴	Equality of Political Power by Socioeconomic Position (0=unequal, 4=equal)	2.19	84
🔵	Equality of Political Power by Social Group (0=unequal, 4=equal)	2.75	49

🔴 **Underperforming** 🔵 **Performing as Expected**

Note: Among the 37 countries with advanced economies that comprise the Organisation for Economic Co-operation and Development (OECD), the U.S. ranks 27th in overall social progress. Relative performance (underperforming, overperforming, performing as expected) is determined based on country GDP. The U.S. is not overperforming GDP in any of the selected indicators.

3. The Eroding Effectiveness of U.S. Government Policy

Government has done little to address the significant problems that declining social progress represent. Instead, the deteriorating social outcomes pose risks to Americans and threatens the very foundations of American democracy. Today's politicians, bound by the partisan duopoly, are unable and unwilling to compromise. For example, U.S. health care is high cost with inadequate insurance coverage, and is the single largest cause of bankruptcy for Americans today. However, there has been no significant health care reform since the Affordable Care Act (ACA) in 2010. The ACA received **zero** Republican votes due to Republicans' unwillingness to compromise. Ever since, Republicans have sought to repeal the ACA ever since instead of seeking to improve or enhance the program. Correspondingly, Democrats have dug in their heels to save the ACA as it is, unable to advance health care reform without Republican support.

Similarly, America's public school system has been lagging compared to many other countries for over 20 years.[9] Based on the respected Program for International Student Assessment (**PISA**), which measures international student achievement, American students rank 31st out of the 37 OECD countries in mathematics, 9th in reading, and 12th in science.[10] Overall, Social Progress Index data reveals that the U.S. ranks 44th of 163 countries in access to basic knowledge (See Figure 2).

America's physical infrastructure is also eroding. This includes roads, bridges, energy distribution, and many other areas. The American Society of Civil Engineers (ASCE) Infrastructure Report Card has given the U.S. an average grade of D or D+ (poor), every year since 1998. Today, the ACSE estimates that $4.59 trillion is required to get America's infrastructure back on track, and that the U.S. has been underfunding infrastructure by as much as 50%.[11] Though both Republicans and Democrats have proposed bills to increase infrastructure spending, there has been no bipartisan consensus since Congress allocated $350 to improve America's highways in 2015. In 2020, House Democrats passed a $1.5 trillion infrastructure bill, but the Republican-controlled Senate blocked a vote.

4. Why U.S. Politics Has Eroded

For many years, America had a history of leadership and innovative public policy that created a strong economic and social environment with widespread citizen opportunity. As we note in a recent book, *The Politics Industry,* legislators from both parties not only worked together, they often lived together and dined together in Washington.[12]

Between 1963 and 1968, Congress passed nearly 200 bills collectively known as the "**Great Society**." This included the Clean Air Act (1963), two Civil Rights Acts (1964 and 1968), the Food Stamp Act (1964), the Voting Rights Act (1965), Medicare and Medicaid (1965), and the Elementary and Secondary Education Act (1965). All received bipartisan support, even with a divided government.[13] Despite their differences, Democratic and Republican lawmakers worked together to pass laws that were not just good for society, but were also good for business because they improved economic opportunity and wage growth, and enabled companies to compete more effectively and better serve their employees. However, this era ended after the 1960s.

Figure 4: How U.S. Politics Industry Structure Changed for the Worse, 1960-2020

1960s
- Gerrymandering of congressional districts, which becomes increasingly sophisticated and widespread, creating safe seats.
- Campaign talent becomes highly partisan, blocking third party candidates for office.
- Special interest involvement continues to proliferate and gain influence.
- Voter turnout declines, giving fewer voters greater influence.
- The Southern realignment racializes politics.

1970s
- Party leadership coopted the House Rules process.
- Court rulings lead to rise of "unreported" money in politics, and less disclosure.
- Think tanks become partisan, and no longer independent
- Partisan primaries for President introduced, increasing partisanship.
- Sore Loser Laws gain popularity nationwide.

1980s
- The Republican party shifted to the right.
- The erosion of congressional seniority and collegiality norms reduced collaboration and compromise in legislating.
- Congressional committees were increasingly bypassed by partisan task forces.
- The major increase in corporate lobbying amplified partisanship.

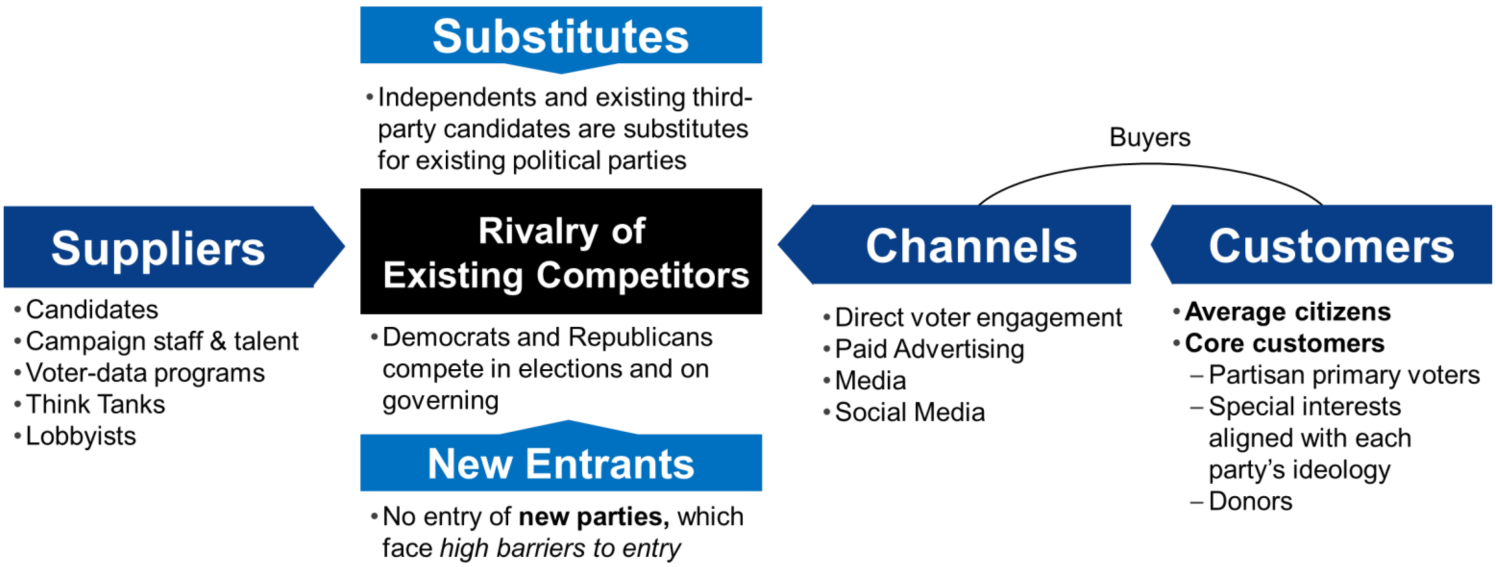
1990s
- The Fairness Doctrine was eliminated, unleashing highly partisan 24/7 media.
- The Republican Revolt: The House Speaker further centralized power in the majority party.
- Nationalization of congressional races fuels increasing partisanship.
- The Partisan Commission on Presidential Committee and committee assignment
- Debates takes control of debate access from the League of Women Voters. No independents can gain access to debates, which are crucial to reaching voters.

2000s
- The emergence of the highly partisan use of social media, along with improving data analytics, leads to more targeted campaigning to partisans.
- The Majority Party gaining rising control of the legislative agenda (Hastert Rule).
- The decline of Conference Committees that facilitated reconciliation and compromise on House and Senate legislation.
- Party congressional campaign committees become crucial to election funding.

2010s
- Money in politics continues escalating.
- The end of earmarks removes currency for compromise.
- Rising party influence.

Why did this change? As shown in Figure 4, and discussed in the first chapter of our recent book *The Politics Industry,*[14] America's political system is not a *public institution*, but a large *private industry* which sets its own rules to advance each party's private interests. Politics has become a duopoly, an industry with just two dominant competitors. In order to understand how this happened, we use the Five Forces Framework (see Figure 5), a leading approach to diagnosing the nature of competition in any industry.[15]

Figure 5: Changing Competition in the Politics Industry



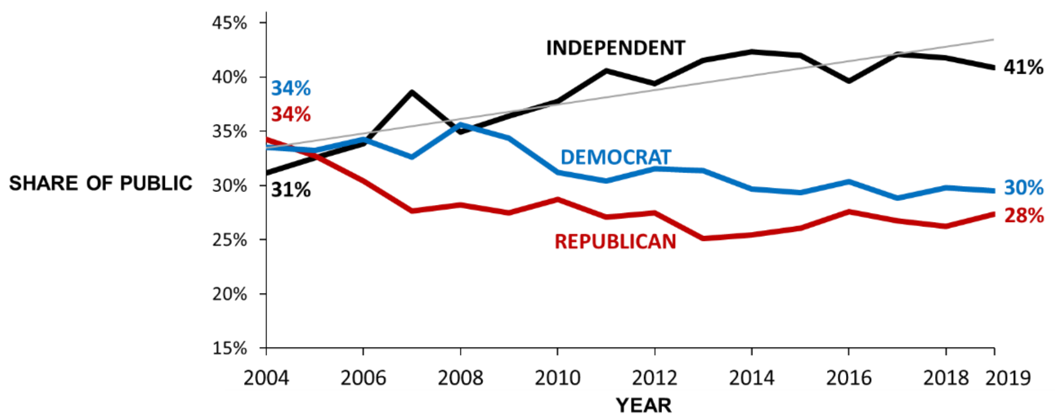
Despite the failure of the parties to deliver results, and our eroding social conditions and business environment, there is *no new competition in politics*. The parties have colluded to fix the rules of politics in their favor, creating *major barriers to entry* that prevent not only the entry of new competitors, such as a viable third party, but also other types of competitors such as Independents and moderates. In fact, if politics were regulated as a business, there would likely be an anti-trust case to eliminate artificial rules the parties used to erect barriers that protect each party's advantages. Yet there is *no independent regulator* in the politics industry to protect competition, and ensure that the rules of elections and governing are in the public interest.

New competitors face huge hurdles to even contest, much less win, elections. As of July 2020, for example, a single donor can contribute $855,00 annually in election funding to a national political party (Democratic, Republican, or both), but just $5,600 per 2-year election cycle to an independent candidate.[16]

Another party-supported barrier to new competition are so-called sore loser laws, which prohibit a candidate who loses in a partisan primary from running in the general election as an independent, or as a member of a third party. Gerrymandering, which manipulates legislative district boundaries to ensure that a legislative seat is "safe" (virtually guaranteed to be won by one party or the other) is another huge barrier to new competitors utilized by both parties.

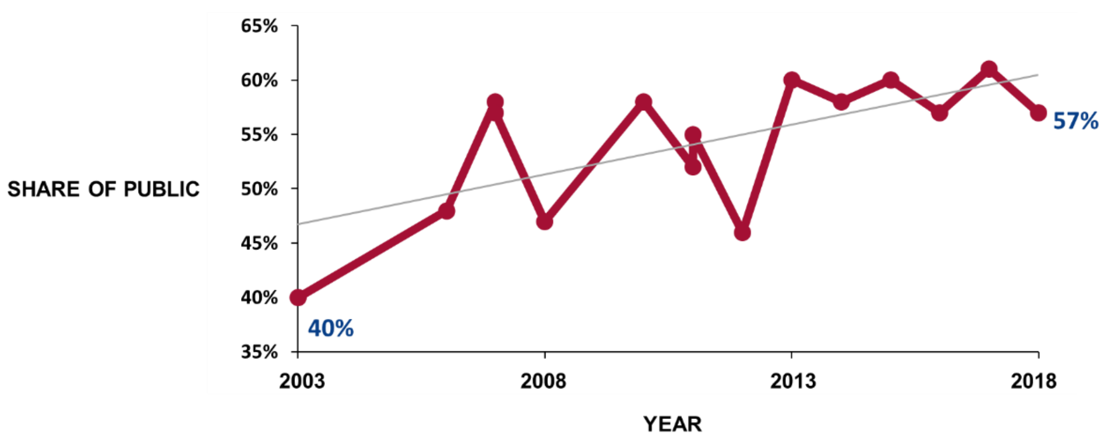
Since the parties compete by serving mutually exclusive, highly partisan camps, the duopoly is free to focus on its special interests, and the parties do not have to deliver results to stay in power. This means that the parties do not need to compromise to deliver legislation that incorporates multiple points of view, but instead focus on highly partisan policies such as high taxes versus low taxes, big government versus small government, and open borders versus trade barriers. The parties focus on ideology, not sound policy, so voters are unlikely to switch parties even when they are not well served by their party. Dissatisfaction of voters with the two major parties has risen markedly (see Figures 5 and 6).[17]

Figure 6: Americans Increasingly Identify as Independents, not Democrats or Republicans



Note: Figures are annual averages calculated from Gallop Poll survey on party affiliation. 2019 figures average all polls through November 14. Response to question "In politics, as of today, do you consider yourself a Republican, a Democrat, or an independent?"[18] Figures may not add up to 100 due to respondents who refused to answer this question.

Figure 7: Dissatisfied Voters are Increasingly Seeking a Third Major Party[19]



Note: Gallup's initial poll asking whether a third party is needed was October 10-12 2003.Circles correspond to date of survey.

In today's political competition, the parties prefer to not pass any legislation rather than compromise on partisan issues, because compromise alienates their core supporters.

Third, the parties also control the major channels for reaching voters, which increasingly have ideological tilts: MSNBC and the New York Times lean liberal, while Fox News and the Wall Street Journal are conservative. There is little that independent media or other countervailing forces can do enable new parties and independents to be successful.

Fourth, the major parties have control of legislative and campaign expertise. Such suppliers – such as campaign managers, pollsters, and political staff – must be loyal partisans. If a Republican campaign manager works for a Democrat, Independent, or third-party challenger, his or her career is over, and vice versa.

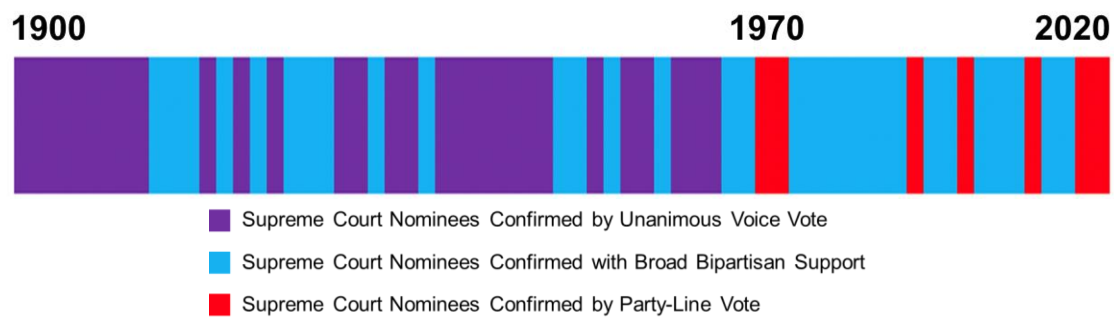
5. Infiltrating Other Government Institutions

In recent decades, the major parties have extended partisan competition beyond elections to affect the functioning of our *other key government institutions.*

- An Eroding Civil Service: Today, political appointees for major government positions are no longer independent civil servants, but must have strict partisan loyalty, which distorts public policy. Officials who occupy senior executive branch positions are growing more powerful, and more partisan. Virtually all Cabinet Secretaries in both the Biden and Trump Administrations belong to the President's party.
- Little "Independent" Regulation: The parties now control the selection of Commissioners to all our major federal regulatory agencies, such as the Federal Trade Commission, Federal Communications Commission, Securities and Exchange Commission, and Federal Election Commission. Appointment to these agencies is now based on partisan balancing requirements, not independence or formal qualifications.[20] Regulators increasingly make decisions via party line votes, not independent assessments.
- Coopting Our Independent Judicial System: Judges at all levels, including the Supreme Court, are now also often appointed in partisan-driven processes (see Figure 8). This has led to confirmation of judges who lacked independent qualifications, as judged by

nonpartisan entities such as the American Bar Association (ABA). Amy Coney Barrett, who was confirmed to the Supreme Court in 2020 in a vote of 52-48, is the first justice to be confirmed by the nominating president's party without a single opposition vote since 1869.[21] By contrast, Justice Ruth Bader Ginsburg, whose seat Barrett filled, was confirmed in 1993 by a bipartisan vote of 96-3.[22]

Figure 8: Senate Votes to Confirm Supreme Court Justices, 1900 to the present[23]



- Weakening Separation of Powers: The independence of our government institutions has also been eroded. Partisan infiltration and regulatory capture, allow parties greater influence on public policy, and thus the ability to deliver more legislation to their core constituencies. This raises barriers facing new political competition even higher.

6. The Historical Role of Business in Elections and Government Affairs

Historically, business involvement in politics primarily rests on major political spending. In fact, business is the largest funder of our political system, and has been for many years. Business has a long history of involvement in politics, dating to the Gilded Age in the late 19th century, when the "first truly national business enterprises emerged," and so-called "titans of industry came to dominate…politics, using their vast resources to gain undue government influence, distort public policy, and extract special favors."[24]

Citizen dissatisfaction with business' role led to the Progressive Era Reforms, which gave rise to many new rules improving the effectiveness of political competition, and diminished business' influence for a time.[25] But today, business is again wielding substantial influence in politics through six main channels.

1. **Lobbying for industry or company interests in legislation, rather than the public interest.**

In 2020, reported lobbying by business was nearly $3 billion, a whopping 88% of all disclosed federal lobbying expenditures. This compares to $41 million in federal lobbying by non-profit entities such as advocacy groups.[26] Unreported (or "shadow") lobbying doubles business lobby spending to $6 billion per year. A number of studies have provided strong evidence that business lobbying can yield a return on investment through influencing regulation, and other policy solutions.

For example, the pharmaceutical industry spends nearly $300 million annually lobbying Congress to advance policies allowing the industry to increase the prices of prescription drugs. In the case of insulin for treatment of diabetes, U.S. prices are over 10 times the cost of the same drugs sold in other countries.[27]

The nation's leading health insurance group donated more than $100 million help fund the U.S. Chamber of Commerce's efforts to defeat the Affordable Care Act.[28] By channeling this money through the Chamber, insurance companies could publicly claim a pro-reform position, while actually funding anti-reform lobbying. In another unfortunate pharmaceutical example, drug makers spent $740 million to successfully kill or weaken federal and state opioid restrictions to limit excessive prescriptions, advocated by citizen groups in response to the opioid crisis which killed nearly 500,000 Americans between 1999 and 2019.[29]

2. **Hiring former government officials to advance special interest policies.**

Almost half of all registered lobbyists are former government officials, such as members of Congress, congressional staffers, or former executive and regulatory agency officials. Many of these are employed by companies directly, or by lobbying firms, and about half avoid registering as lobbyists at all due to loopholes in the disclosure rules. This practice, known as the "revolving door," is highly effective in influencing legislation, but means that the federal government and its regulatory agencies are no longer independent. In the Trump administration, more than 350 former lobbyists were appointed to senior executive roles, including Health and Human Services

Secretary Alex Azar.[30] The result can be ineffective legislation that goes against the public interest. Former government employees and appointees are either already connected to powerful industry interests, or are influenced to move in this direction while serving in government in the hopes of securing a lucrative industry job after their government term ends.

3. Company campaign contributions to support the election of candidates sympathetic to industry or company agendas, and to gain access to elected officials.

As we discussed, business proves to be, by a significant margin, the largest funder of our political system and election campaigns. Corporate PACs have a "'more than 3-to-1 fundraising advantage' over labor unions in PACs delivering funds." [31] In 2020, business-related PACs were responsible for $5.9 billion in campaign spending, nearly 60% of the total![32] Companies commonly support politicians from both parties, with the primary goal of securing influence and reinforcing relationships with both sides to influence public policy.

Finally, hundreds of millions of dollars in corporate funds are funneled through business and trade associations, which can spend unlimited amounts to influence elections without disclosing their contributions. [33] Such spending, commonly called "dark money", distorts the electoral process, fuels partisanship, and enrages the general public, leading to the distrust of government and business. The U.S. Chamber of Commerce is the country's largest dark money spender.

4. Spending heavily to prevail in direct democracy, or citizen led ballot initiatives.

Business now also invests substantial funds to influence the outcome of citizen-led ballot measures, often to defeat legislation that can have adverse impacts on particular business groups, despite public support. Heavy business spending on such efforts distorts elections and often undermines the public interest. A study found that corporations outspent non-business citizen groups by a ten-to-one margin in high profile ballot initiatives. For example, drug companies spent $100 million in 2016 to defeat a California ballot initiative that would have lowered prescription drug prices. Citizen groups supporting the measure raised just $10 million.

The measure was introduced because prescription drugs can cost over 10 times more in the U.S. than they do in similarly developed nations.

5. Enlisting employees in corporate political activity.

Companies today sometimes pressure employees to support candidates that advance the company's interest. Among respondents to a 2019 Harvard Business School survey, 49% "felt pressure from their companies to vote in ways that benefited the company."[34] This distorts democratic principles, and create further distrust in corporations.

6. *Lack of transparency and board governance of political spending and involvement.*

Corporations contribute heavily via PACs, super-PACs, and other organizations that redistribute contributions and disguise the ultimate recipients of business funding, both directly and through trade associations. Much heavy spending is funneled through "527s," tax-exempt organizations whose purpose is to influence elections. Contributions to 527 organizations are unlimited. In 2019, public companies and trade associations accounted for 48% of the $70.3 million in total giving to 527s.[35] Because 527s assemble contributions from many sources and funnel money through local PACs, campaigns, and candidates, even company donors may not be aware that their contributions go to candidates and policies that harm both them and the public interest. Such "shadow spending" enables corporations to support politicians and organizations that advocate for policies that can benefit companies' private interests, but that are at odds with stated corporate policies.

For example, the Republican Attorneys General Association (RAGA), a 527 organization, received $9.8 million from its 20 highest-spending public company and trade association contributors. These funds were used to elect 18 state attorneys general who sued to overturn the Affordable Care Act (ACA), despite the U.S.'s desperate need for accessible health care.[36]

In each case**,** business is typically focused on firm- or sector-specific interests. Too often, business undermines its own medium to long term interests, not to mention those of citizens.

7. The Need for a New Business Role in Government Affairs and Politics

Given that the traditional business government affairs playbook perpetuates political dysfunction and worsens gridlock, preventing our political system from delivering the policy solutions our nation and U.S. companies need, it is time to rethink how business engages in politics. As noted, the funds that businesses donated to campaigns in the 2020 cycle and used for lobbying in 2020 represented 60% and 88% of total campaign[37] and lobby[38] spending, respectively. Yet business's heavy spending is not supporting policy progress but often distorting it more and more. Business leaders know that the traditional playbook for corporate government affairs is no longer working, and that historical business advocacy for special interests has distorted markets and public policy.

Business leaders are also now seeing their role in social policy in a different, and much more important way. Business is re-thinking efforts to improve social condition. Given government failures, today there are so many more opportunities to improve social policy that will actually benefit business and society (see Figure 9). Also, more companies are understanding that they should engage in politics and government in ways that support candidates who seek to *advance sound policy* rather than perpetuate *gridlock*. And business is recognizing the need to advance society and citizens, not business interests alone.

Figure 9: The Changing Government Affairs Playbook in Business

Agreement by HBS Alumni	
71%	Focus on improving overall business environment, not industry and company special interests.
67%	Reduce special interest lobbying, which distorts markets and regulation.
74%	Scale back the hiring of former government officials in order to distort policy and regulation in an industry's favor.
59%	Redirect corporate election spending to problem-solving candidates versus partisans who fail to advance legislation.
73%	Reduce heavy business spending on direct democracy ballot initiatives.
81%	Support voting rights and encourage employee voting, but end political recommendations to employees
88%	Increase disclosure (transparency) and introduce sound board governance of political activity to ensure alignment with corporate policies.
79%	Advance political innovation by supporting election reform that reduces bitter partisanship and restores healthy competition in politics (examples include non-partisan, open primaries and ranked choice voting).

8. Business' Approach to Social Issues: Major Change is Underway

The set of circumstances described here has triggered what we believe is the greatest transformation in business thinking and practice in many decades. The role that business is now playing in the economy, and its involvement in our democracy and government, is shifting markedly. Business is now setting out to address critical societal issues such as those mentioned previously, and serving a broader set of stakeholders, including employees, customers, suppliers, communities, and shareholders. Business has begun to move *beyond maximizing profit,* to *advancing society.*

Part of this new movement is to raise the transparency of political spending. According to the Center for Political Accountability (CPA), in 2020, 332 companies (including 260 members of the S&P 500, up from 190 companies in 2015) had policies to disclose all or some of their election-related spending. Further, 146 companies mandated board and committee oversight of corporate political spending to ensure alignment with corporate policy, a nearly 46% increase since 2016.[39]

In recent months, we have witnessed a seismic shift in business thinking about political spending and supporting democracy as business leaders have realized the gravity of the challenges they are facing. History shows that when business fails to advance democratic principles and declines to support legitimate political decisions, autocratic leaders often step into the void. Consider pre-WWII Europe and Hitler's rise to power. Fortunately business in America today has already begun to rethink political spending, reorient corporate giving towards solutions-oriented politicians, and support organizations working to improve democracy.

Consider the months-long effort by the Republican party to discredit the 2020 Presidential election, which culminated in the violent storming of the U.S. Capitol on January 6, 2021. On that day, Americans witnessed firsthand the very real risk a failure of our democracy. Companies and businesses began to step up rapidly to shift the nature of their political spending. Numerous companies suspended political spending altogether, or banned contributions to the 147 Members of Congress who voted against the certification of Electoral College votes, even after election-related misinformation fueled the January riot (see Figure 10). This response illustrates business leaders' recognition of the link between political spending and political outcomes, but, business as an entity is yet to transform how it will interact with and seek to influence government.

Figure 10: Recent Political Spending of the Top Ten Highest-Spending Corporate Political Action Committees[40]

Company	2020 Cycle PAC Contributions	2021 Political Spending Changes
AT&T	$2.65 million	Suspended Contributions to the 147 Congressional Objectors
Comcast	$2.57 million	Suspended Contributions to the 147 Congressional Objectors
Lockheed Martin	$2.03 million	Suspended All Political Spending
UPS	$1.77 million	Suspended All Political Spending
Deloitte	$1.72 million	Suspended All Political Spending
Raytheon	$1.71 million	Suspended All Political Spending
Boeing	$1.7 million	Suspended All Political Spending
General Motors	$1.35 million	Suspended All Political Spending
Verizon	$1.33 million	Suspended Contributions to the 147 Congressional Objectors
Amazon	$1.26 million	Suspended Contributions to the 147 Congressional Objectors

Growing recognition that a strong democracy is vital to a strong business environment has led a growing number of companies to also act proactively to protect voting rights, and to enact campaign finance reform. For example, in February 2021, Microsoft launched the Democracy Forward Initiative to allow PAC contributors to donate to democracy-strengthening initiatives aimed at increasing public transparency, strengthening voting rights, and reforming campaign finance regulations.[41] Such contributions are a welcomed alternative to direct-to-candidate donations.

Other companies have also taken unprecedented action in the state of Georgia, where the legislature recently passed a restrictive law that would disproportionately disenfranchise people of color. Major League Baseball moved the 2021 All Star Game from Atlanta, GA to Denver, CO, to protest the law. And, Georgia-based companies Coca-Cola and Delta, who issued statements in opposition to the law, were joined by over 100 others companies who spoke up in defense of voting rights.

These are very encouraging developments at a time when business is beginning to go beyond its traditional engagement with society to take responsibility for advancing our political system and address social issues. We in business can help make our government work better. It is our job to pay attention and support candidates that advocate sound policies that will benefit the public interest (versus carve outs for special interests). The recent decade has been a challenging but exhilarating time for business, which is becoming an advocate for democracy and sound social policy, not special interests.

9. New Principles for Corporate Political Involvement

The current state of our political system requires urgent changes by the business community. Given its historical role as the main funder of our political system, business must now act to enhance America's economic and social outcomes while creating a better environment for business growth and reducing political distortion and risk. To succeed will require both individual companies who demonstrate what strong political looks like, as well as a leader of collective action across industry groups.

Without delay, businesses must take steps to address political system dysfunction discussed in this paper, which is leading to a rapid erosion of American democracy with enormous risks to our society, public policy, and business, due to instability, polarization, disinformation and the potential for disputed, or even manipulated, elections. Business must therefore take a public position in defense of democratic principles. Specifically, business must:

1. **Reinforce the legitimacy of the 2020 election** results via public messaging and by countering disinformation through public statements, and by withholding support from candidates or government officials who cast doubt on the validity of the election. More than ⅓ of Americans today believe that the 2020 election was fraudulent, posing significant risks to future elections. These are conditions observed in emerging economies and newer democracies around the world. It is deeply disturbing these risks have affected the U.S. with implications within and beyond our borders. In November 2020 - January 2021 the business community was unanimous in its support for the legitimacy of the 2020 election through public statements assuring the public of its validity, and later committing to refrain from supporting the 147 members of Congress who refused to certify its results.

2. Publicly **oppose restrictive voting laws** that seek to weaken this most fundamental constitutional right in order to gain partisan advantage and restrict voting access to people of color, and refuse to support politicians and government officials who advocate such laws.
3. Invest corporate resources only in those states and cities where the government has demonstrated a **commitment to democracy,** as measured by objective indicators of the state of democracy in the state or city. In exchange for corporate investment, businesses should seek local government's commitment to improve and strengthen local democracy performance.

In the long term, business must support a serious long-term plan to build a functional and effective political system, including rules and incentives for delivering sound public policy solutions that is not distorted by special interest groups. To accomplish this, business must:

1. **Update the role and expectations of corporate government affairs teams to ensure political activities at a minimum do not harm democracy**. Government affairs teams have historically had narrowly defined goals – such as to minimize taxes and regulation. However, there has been little focus on who and what the company may be supporting while pursuing those interests, and the impact of such positions on democracy. Government affairs teams should at a minimum "do no harm" to democracy, by ensuring that pursuing that company agenda does not empower those who seek to undermine the functioning of the system.
2. **Proactively support state and federal legislation** that improves the functioning of democracy, including:
    a. Voting and election administration policies that improve voter rights and participation in elections, including automatic voter registration, no-excuse absentee voting, availability of sufficient polling locations, the independence of election administration from partisan intervention by state legislators.
    b. Support policies and innovations that will improve political competition, such as independent legislative redistricting, and non-partisan primaries with ranked

choice voting in which the top five candidates advance to a ranked choice general election.

3. **Align stated company policy priorities with political activities**. Many companies are taking clear positions on issues including climate change, racial equity, voting & elections, LGBTQ rights and other issues. However, boards and executive leadership teams must ensure that political activities and contributions are aligned with overall company commitments, and that political contributions are not funding politicians or organizations that oppose or seek to undermine these principles. Boards should also commit to full disclosure of all corporate political activities.
4. **Enhance and maintain transparency, and Board oversight, of political activities**
    a. Shareholders and customers are increasingly demanding transparency, and other good governance.
    b. Support transparency of political spending and lobbying including legislation and public policies at a state and federal level, to ensure a level playing field.

10. Towards a New Approach to Corporate Social Impact

As we have discussed, this is a critical time for business to broaden its efforts to advance social progress for American citizens and communities. Business can do this by adopting new strategies for corporate social impact in priority areas. We are already experiencing major shifts in business thinking and practice that are having a substantial impact on business behavior and results, both in in strategic thinking and the nature of competition, and in improving economic opportunity for employees.

Historically, business has primarily focused on producing goods and services, and has played a limited role in social progress. Traditional business thinking on social impact, shown in Figure 11, was primarily focused on philanthropy. Companies volunteered their employees and donated money to worthy social causes. This was valuable by bringing company expertise to bear to help advance progress. However, since philanthropy largely involved modest resources and business involvement, the impact was limited. This was reinforced by the belief in shareholder primacy, which dates back to the 1970s. This idea advocated that it was not legitimate for businesses to utilize shareholder capital on areas outside of the business itself – economist Milton Friedman was widely quoted as saying that "the social responsibility of business is to increase its profits,"[42] a perspective not surprisingly supported by the investment industry who represented shareholders. Shareholder primacy also remained a core tenet of organizations such as the Business Roundtable through the late 1990s.[43] However, the idea that shareholder profits were the most important definition of business performance also led to many societal concerns that short term profitability was dangerous for business.

<u>Figure 11: Evolution of Business Thinking and Involvement in Corporate Social Impact</u>

Philanthropy	Shareholder Primacy	Corporate Social Responsibility (CSR)	Corporate Purpose	Stakeholder Capitalism	Creating Shared Value (CSV)
• Donations to worthy social causes • Volunteering	• Milton Friedman: "The social responsibility of business is to increase its profits" for shareholders	• Compliance with ethical and community standards • Good corporate citizenship • "Sustainability" initiatives • Mitigating risk and harm • Improving trust and reputation	• Addressing the question, "why do we exist?" as a company • Reflects broader stance on making purpose powerful through addressing social issues	• Business Roundtable designates broader stakeholders including employees, customers, communities, suppliers, and the environment, not just shareholders.	• Companies can meet societal needs with a **profitable business model**

<u>Corporate Social Responsibility</u>

Beyond philanthropy, companies began to broaden and increase social impact efforts under pressure from NGOs. What emerged was the *corporate social responsibility (CSR) movement*. The idea of CSR first emerged in the 1950s, and was widely embraced in the 1990s and 2000s.[44] In CSR, corporations facing scrutiny sought to become "good corporate citizens." Though there was an emerging focus on sustainability had begun decades earlier, it was initially on a modest scale.

Companies sought instead to focus on improving their reputations by doing good in their communities, and meeting accepted community norms and standards.

Corporate Purpose

The next significant shift in thinking and practice on the role of business in society and social influence was the corporate purpose movement, or the idea that a company's reason for being can simultaneously address social problems while creating economic value for the company.[45] Over the last decade, from roughly 2010-2020,[46] as the U.S. business environment and social conditions began to deteriorate due to political dysfunction, corporate thinking about social impact began to change. This was accelerated by Larry Fink, CEO of BlackRock (one of the world's largest investment companies). Beginning in 2014,[47] Fink has cautioned against focusing on short-term profitability, which he warned would hinder long-term growth.[48] Other business leaders joined this discussion, and purpose has become a major goal of business that now extends far beyond philanthropy per se.

Purpose Statements

According to a survey of 474 executives worldwide, conducted by the Harvard Business Review and EY Beacon Institute, 84% of executives believed "business transformation efforts will have greater success if integrated with purpose."[49] Despite recognition of the importance of purpose, however, many companies have grappled with defining and implementing a specific purpose driven strategy that is integrated into the company's operations. One example is McCormick, the high-performing spice company. Its purpose statement reads, "We are equally dedicated to strengthening our business and [to] improving the world around us - an approach we call Purpose-led Performance (PLP). It exemplifies our commitment to deliver industry-leading financial performance while doing what's right, including responsibility for the long-term vitality of people, communities, and the planet we share."

Purpose statements, such as McCormick's, also exemplify a seminal shift in business thinking about social impact, going well beyond earlier practice.

Stakeholder Capitalism

In 2019, the Business Roundtable took a major step by designating **a broader set of stakeholders beyond shareholders.** These include customers, employees, suppliers, communities, and shareholders. [50] Serving all stakeholders is central to the purpose of a corporation.

Making Purpose Powerful

In order to effectively realize corporate purpose, companies must ensure their purpose is designed to "make a meaningful contribution to an unmet social or environmental need" and that said purpose is "reflected in the company's culture" and "seen across the company's operations."[51] Further, no corporate activities or strategies should contradict the company's stated purpose. The most effective way to integrate purpose into company strategy and operations is through shared value.

Expanding Strategic Thinking: Creating Shared Value

Another major shift in strategy and strategic thinking is to what we call **Creating Shared Value** (CSV), an idea first introduced in 2011.[52] Potentially, this idea has become a major game changer.

The Shared Value idea challenges Milton Friedman's notion that social impact is inconsistent with profitability. Instead, there is growing, and overwhelming, evidence that *social impact is not contrary to company profitability, but often reinforces and increases it*. Employees and consumers are increasingly demanding that businesses commit to CSV. According to the Spring 2021 Edelman Trust Barometer, a majority of the general public believe CEOs must make social problems such as gender and pay equity a higher priority, and 61% of Americans believe that "our country will not be able to overcome our challenges without business' involvement."[53]

Shared value involves a major shift in business strategy thinking, and widens the dimensions of competitive advantage and the drivers of superior economic performance. The core idea of shared value is that companies can create competitive advantage by **meeting unmet societal needs using profitable, scalable business models**. [54] That is, the purpose of business is to *create economic value in a way* demonstrates *that also creates shared value for society.* Businesses acting as businesses, not as charitable givers, are the most powerful force for addressing many of society's most pressing issues worldwide.

As we note in our 2011 article on the topic,[55] shared value strategy that business can deliver major social benefit while also generating competitive advantage, and improved profitability in many areas, including the following:

- Improve environmental impact and sustainability, improves profitability by reducing water usage, energy consumption, emissions, and by limiting the creation of waste such as by eliminating unnecessary packaging.
- Increase employee retention and customer loyalty, by recruiting a diverse workforce, providing training and career development opportunities for lower income workers, and supplying high quality health care and educational opportunities to all employees, improve profitability.
- Strengthen the U.S. business environment by bolstering democracy, supporting voting rights, and targeting political involvement and spending towards encouraging necessary policy solutions rather than special interest carve outs.

In driving new waves of innovation, productivity, and economic growth, then, shared value strategic thinking creates a synergistic connection between social impact, competitive advantage, and excellence in company performance. Building company strategy around shared value also creates greater purpose for the corporation, and for capitalism itself. Business is already seen as able to outperform government in many areas, including job creation, addressing systemic inequalities, and addressing climate change.[56] Through shared value strategy, business can profitably and scalable address social issues over the long-term. Indeed, social needs today represent the *largest unserved market opportunities.* There is a growing number of companies that are adopting this new thinking. Reflecting this thinking, Fortune magazine under editor Alan Murray created the ***Fortune* Change the World list in 2011,** "built on the premise that the profit motive can inspire companies to enhance social impact and tackle society's unmet needs." [57, 58]

On the 2020 *Fortune* List, there is recognition of a substantial and growing number of renowned purpose-driven companies, such as PayPal, BlackRock, MasterCard, Zoom Video Communications, Walmart, and many others. All of these are profitably meeting an important societal need with their products and services, while also outperforming stock market indices.

Smaller and emerging companies such as Airbnb, Lyft, Imperfect Foods, and Everlane are also embracing shared value thinking, especially in pioneering environmental innovation, and designing and producing products and services that are more sustainable than competitors' products, and which pioneer other social impact innovations.

11. Expanding Awareness of the Opportunity for Shared Value

Through shared value strategy, business can create competitive advantage while *making a difference where government has failed,* and which improve business' own profitability. The starting point for a company is to determine *what social issues they touch*. Is the company employing many low-income workers who can be equipped to improve productivity and income? How is the company they negatively impacting the environment and turn this into a strength? Businesses can have significant influence over these and other areas. Indeed, the world depends on numerous aspects of our business environment that affect social progress, and create opportunities to improve it by creating shared value.

The shared value idea, then, is a whole new way of thinking about strategy. A company must consider: How do you compete as a company in a world where social impact matters to customers?

Walmart's Pursuit of Shared Value

A surprise to many, Walmart, the world's largest company, is among the most compelling examples of how for shared value competitive advantage and drives company performance.

Walmart was once seen as a pariah—a company that didn't pay its workers enough, was causing the closure of small businesses in its communities, and was pressuring suppliers and pushing down their prices. All of this made Walmart highly controversial.

Walmart, however, began to embrace shared value thinking and has transformed how it competes. In 2005, in the immediate aftermath of Hurricane Katrina, Walmart delivered "food, clothing and housing-relief to workers and the affected communities."[59] Walmart's capacity to do substantial good in society inspired the company to radically change its strategy, with a focus on improving quality of life, sustainability, citizen opportunity, and diversity. Walmart is now a leader in implementing shared value strategy, having built shared value thinking into virtually all aspects of company operations.

In financial services, for example, Walmart now offers very low-cost banking products that meet the needs of unbanked and under-banked, lower-income families. In healthcare, Walmart has built a substantial health service business for both employees and customers. It offers an employee health programs and services that achieve excellent results at lower cost. To the public, Walmart provides low-cost generic drugs (it is the lowest cost provider of generic drugs among major companies). Walmart has also introduced health clinics to provide affordable health services, including diagnostic services and primary care.

Environmentally, Walmart has rethought how to reduce energy use, and packaging materials, thereby reducing costs and reducing emissions. To enhance employee opportunity and diversity, Walmart is also now offering higher starting wages than peers,[60] as well as educational funding opportunities for its workers. In 2015, Walmart announced a two-year, $2.7 billion investment in employee education, which includes college tuition assistance for all employees.[61, 62] In 2020, Walmart announced a nearly $1 billion investment in higher employee bonuses, and expanded its trade- and skill-based education programs.[63] Diversity in Walmart's workforce has increased substantially, which enables Walmart to better serve the communities in which it operates. Overall, the company has become extraordinarily profitable by understanding and taking advantage of the major transformations that are going on in the economy via shared value thinking.

Figure 12: Walmart's Shared Value Journey[64]

1

Products Addressing Unmet Needs and Underserved Customers

- The leader in **organic**, **fresh** and **healthy food** at **Every Day Low Prices**
- **Low cost financial services** including Walmart Pay, money orders, etc. providing **financial access** to **unbanked** and **underbanked** customers
- **Low cost generic drugs** and **affordable personal health care**
- Piloting **low cost in-store health clinics**, including **diagnostic services**, that target lower income and uninsured families

- These have become **large** and **growing businesses**

2

Redefining Productivity in the Value Chain

- Comprehensive programs to increase resource efficiency including **energy**, **logistical efficiency**, **packaging**, and **food waste**
- Investing in **higher starting wages** averaging $14 per hour**,** **improved benefits**, **extended education** and **training**, and **career paths** for entry level associates
- A leader in **employee health and wellness programs** that enhance health through **better quality care at lower cost**
- Fosters **inclusion** through **diverse sourcing**, including over **$34 B spent with women-owned businesses**

- Major **savings (billions per year)**
- Better **associate productivity** and **retention** Substantially **lower health care cost** and **cost of poor health**

3

Improving Business Environments Where Walmart Operates

- Collaborate with suppliers and conservation groups to **improve the sustainability of supply chains** (Project Gigaton, blockchain pilots), **avoiding over 230 MMT of emissions** since 2017.
- Lead collaborations to **improve the lives of those working in supply chains**
- Improved **employee access** and **retention** in the retail sector
- Enhanced **market access for tens of thousands of smallholder farmers** in LatAm and India, increasing workforce diversity, minimum wage, and college funding
- Lead collaborations in the **retail sector** to **strengthen workforce development** and **foster upward mobility** of entry-level employees

- **Better quality**, **lower cost sourcing**

12. Conclusion

The shifting role of business in government and society, not just in company profitability, reflects a major transformation in business thinking. Business is now rethinking and substantively shifting its engagement with government, and with our political system. It is also rethinking traditional business thinking about the nature of competition and strategy, which is having growing implications for advancing social problems and improving the health of our society. Business is once again playing a major role in strengthening democracy and making our society a better place for all citizens, instead of continuing a narrower focus on political practices that worsen gridlock, foster special interests, distort markets, and block progress.

This is a great moment to be in business. We in business have the opportunity to be on the front line of changing this country. While business and the capitalist system have been a source of some criticism and are viewed with skepticism by many. However, elevating focus on the public interest versus industry special interests are key steps in restoring the sanctity, the respect for, and the societal impact of business. Shared value thinking is also rapidly expanding, and can make business an even greater force for social progress and policy change.

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