

How Do Firms That Are Changing the World Engage Politically?

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Abstract

The objective of this study is to contribute conceptually and empirically to the discussion about when firms attempt to align their political efforts with their social goals and how this alignment affects their financial performance, an area currently still under-explored. The empirical context for our analysis focuses on companies that have been singled out due to their efforts to emphasize “shared value” defined as integrating competitive and social policies. The specific research questions that we shed light on in this study include: What have been the types of political efforts that these firms singled out in the pursuit of their shared value goals? Or, stated slightly differently: What is the political capacity of firms who have embraced social goals as part of their competitive strategy? Relatedly, we ask whether shared-value firms are more likely to deploy their political efforts to promote their social values initiatives and whether political and social alignment boost a firm’s net income.

Although market-based strategies have attracted substantial attention in management studies, there has been increased recognition that nonmarket strategies may also affect a firm’s organizational performance and contribute

to its sustainable competitive advantage.¹ Two components of nonmarket strategies deal with, respectively, the firm's corporate social and environmental responsibilities (CSR – corporate social responsibility) and its connections to the political system (CPA – corporate political activity).^{2,3,4,5} We define CSR as an umbrella term that encompasses the policies, processes and practices that firms put in place to attend to societal demands on and expectations of the firm.⁶ Firms increasingly seem to view CSR strategically as “a source of opportunity, innovation, and competitive advantage,”⁷ and thereby as beneficial to both the firm and society at large.⁸ CPA is also a broad-spectrum term. It captures the firm's policies, processes and practices that are “intended to influence governmental policy or process.”^{9,10} Both CPA and CSR are important components in shaping the firm's political and social conditions that may improve a firm's performance with its external environment.^{11,12}

However, most studies of nonmarket strategies analyze CSR and CPA separately from each other.^{13,14} Questions are just starting to emerge about whether and how these two prominent nonmarket activities influence one another, and whether they may be productively combined. Several theoretical lenses, such as institutional theory, stakeholder theory, resource dependency theory and the resource-based view of the firm, have been used to predict the separate impact of each of the components of a firm's nonmarket strategy. Mellahi, Frynas, Sun and Siegel developed a conceptual model that positions the alignment of CPA and CSR as a mediator in predicting the impact of a firm's nonmarket strategy,¹⁵ but there is a lack of empirical evidence to substantiate this claim.^{16,17} Some scholars argue, either conceptually or empirically, that alignment of a firm's CPA and CSR can have a positive impact on its legitimacy, reputation and competitive advantage.^{18,19,20,21,22}

However, the relationships between a firm's CPA and CSR are still relatively underexplored. It would therefore be helpful to have more theoretical and empirical insights about when firms attempt to align their political efforts with their social goals and how this alignment affects their financial performance. We set out to explore this relationship. The empirical context for our analysis focuses on companies that emphasize “shared value.” Shared value is defined as the “policies and operating practices that enhance the competitiveness of the company while simultaneously advance the economic and social conditions in the communities in which the firm operates.”^{23,24} Porter and Kramer detail how shared value diverges from CSR responsibility.²⁵ The focus of their analysis is on firms that make an effort to incorporate social goals and objectives into their competitive strategies, instead of just bolting on CSR activities and viewing their philanthropic,

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corporate citizenship or sustainability activities and objectives as separate from their strategic concerns.²⁶ Since these shared-value firms have been proactive about combining their market and nonmarket capabilities, we ask whether these firms have an increased likelihood of aligning their political efforts with their social goals and whether this enhances their nonmarket strategy and possibly also their competitive position?

Drawing from previous conceptual research,²⁷ we focus on the resource-based view of the firm, which argues that each firm has a unique bundle of resources, both market and nonmarket, that enable it to develop a sustainable competitive advantage.²⁸ This theory is particularly useful since it encompasses the possible complementarity between the components of a firm's nonmarket strategy, as well as the integration between a firm's market and nonmarket strategy. With respect to the integration between a firm's market and nonmarket strategies, a firm can develop innovative configurations that enable it to respond to competitive pressures and nonmarket challenges.^{29, 30} In addition, a firm needs to think strategically and innovatively about how to deploy its nonmarket resources in being responsive to stakeholder demands and pressures.³¹

The research questions posed in this paper include "What have been the types of political efforts that these firms singled out in the pursuit of their shared value goals?" Or, stated slightly differently: What is the political capacity of firms who have embraced social goals as part of their competitive strategy? Relatedly, we ask whether shared-value firms are more likely to deploy their political efforts to promote their social values initiatives and whether political and social alignment boost a firm's net income. Taken together, these questions aim to shed light on the impact of aligning political and social activities, an area currently still under-explored.

Complementarity Between CPA and CSR

This section discusses briefly how a firm's CPA may strengthen its CSR and lead to a more cohesive nonmarket strategy. According to the resource-based view of the firm, firms that align their CPA and CSR may develop a unique configuration of resources that should help them to interact more effectively with stakeholders and lead to an increase in financial resources.³² Historically, a firm's CPA has been viewed as a much more controversial aspect of a firm's nonmarket strategy than its CSR, given possible reputational liabilities associated with CPA.³³ These concerns have become more pronounced since the 2010 Supreme Court's Decision in "Citizen United vs. FEC," which allows unregulated direct spending by firms.³⁴ Concerns emerged that this deregulation of corporate political involvement would lead to corporations being able to corrupt the political environment.

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As a result, politicians, academics, activists and shareholder activists have advocated for more transparency and disclosure concerning corporate funds as well as for more shareholder oversight.³⁵

Despite these serious concerns, we argue that a firm's political efforts can strengthen the economic viability, visibility and credibility of its CSR commitments.³⁶ With respect to visibility, Hewlett-Packard is a good example of how a firm's CPA can spillover positively on its CSR efforts. Hewlett-Packard, a company already known for being environmentally progressive, became an advocate of state level legislation that requires producer responsibility for handling e-waste. Combining a proactive environmental approach and political efforts at the state level enabled the company to gain a competitive advantage over its major competitor Dell, who was less environmentally proactive. In this situation, the firm's political efforts helped to amplify the firm's environmental impact as well as improve its competitive position.^{37,38}

Moreover, a firm may use its political efforts to give a social issue more credibility as well as amplify its societal impact. This has become strategically more important as firms increasingly face social issues that constitute grand challenges. Grand challenges are problems that are complex and difficult to resolve and that affect large numbers of people and communities; resolving them requires a multi-pronged and multi-stakeholder approach, instead of unilateral efforts by corporations.^{39,40,41} The problem of conflict minerals offers an excellent example of how political action can also be a socially beneficial tool. Firms in the electronics and jewelry industries have exhibited a consistently strong demand for minerals such as tin, tantalum, tungsten and gold. The economic and strategic value of these minerals is so great that the desire to control the mines has contributed to the vehemence of political conflicts in the Democratic Republic of the Congo (DRC), which has large deposits of these minerals. Intel, one of the electronics firms, took initiative to find out how best to resolve this problem. In pursuing its initiative, it worked extensively with NGOs, who were familiar with the political situation in the DRC, and Congolese government authorities. Intel supported and spearheaded public-private partnerships and industry-led initiatives to increase transparency in sourcing practices.^{42,43} In the end, a coalition of governmental actors, NGOs and activists complementing these multi-stakeholder efforts, was able to get a specific section in the Dodd Frank bill – section 1502 – that requires U.S. firms to file a report on their use of conflict minerals. Several firms, including Intel, were concerned about the passage of the bill. However, the SEC had a consultation period, which enabled them to engage in helping to shape the regulation.^{44,45} Consequently, the passage of this legislation augmented the efforts of Intel, as well as other concerned

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electronics firms, in terms of their societal impact through their efforts to resolve this grand challenge.

Furthermore, it is critical that a firm's CPA be conducted in an ethical manner to amplify its social agenda. As we mentioned previously, since the Citizens United decision, there have been concerns about the transparency of corporate political efforts and increases in agency costs. One possibility stemming from the Citizens United decision is that firms may pursue less transparent options in order to avoid stakeholder scrutiny, such as using more dark money, that is, investing in social welfare organizations whose contributors are not publicly disclosed.⁴⁶ Another major concern is that the Citizens United decision has created information asymmetries, which make it more difficult for corporate boards and shareholders to monitor their top management's political actions.⁴⁷ There is apprehension that top managers can use the firm's political efforts to pursue their personal agendas, which may be at odds with the firm's interests.^{48,49} More specifically, senior managers' decisions about CPA may be driven more by self-aggrandizement, ideological beliefs, desire to voice and mimetic pressures than by profit.^{50,51,52} Furthermore, there may be moral hazard concerns when top managers engage in risk-taking behavior since they may assume that the government will rescue the firm if the risky behavior does not pay off. In conclusion, if a firm's political efforts are tainted with controversy, then its CPA is likely to undermine rather than augment its social agenda.

Aligning Shared Value and Corporate Political Activity

The development of the concept of shared value⁵³ has increased the focus on firms that align their social and competitive goals, with the intention of connecting social benefits to financial progress. The concept of shared value is captured by the resource-based view of the firm, since such firms are in the position to develop unique, inimitable and valuable capabilities, and thereby increase their competitive advantage.⁵⁴ It is not enough for a firm to have resources; firms must develop and redevelop different combinations of their market and nonmarket resources to be able to leverage them and create value.⁵⁵ In addition, because shared-value firms are on the front line in terms of innovatively solving social issues, they may be able to seize political opportunities that can enhance their opportunity not only to resolve the social issue but also to create financial benefits.⁵⁶ The following examples illustrate some of the resource combinations that shared-value leaders have deployed in addressing pressing social issues.

Firms can reconceive products and markets, redefine value chains and build supportive industry clusters at the company's locations in order to simultaneously achieve economic and societal value.⁵⁷ Two companies on

Fortune's Change the World List offer illustrative examples of reconceiving products and markets. Impossible Foods and Beyond Meat have developed plant-based burgers, whose production requires significantly less amounts of water and land in comparison to the production of beef burgers. Both companies have had some success in getting their products to customers through fast food markets, such as Applebee's, White Castle, and Dunkin'. At this point, neither of the firms are involved politically, even though they might benefit financially from politically pushing for food options that are much less harmful to the environment.

In terms of redefining value chains, Wal-Mart provides a noteworthy example of a company that has made significant changes with respect to its resource use. The company has been a sustainability leader since 2005, when its CEO, Lee Scott, had a transformative experience after which he recognized the strategic benefits of addressing environmental issues, cutting waste and packaging, and reducing shipping costs. Its Project Gigaton program, launched in 2017, stimulates suppliers to decrease greenhouse gases. In developing this program, the company wants to demonstrate the essence of shared value: that a firm can develop environmentally friendly policies and continue to be profitable. The company has identified six areas where suppliers can cut their emissions: energy, agriculture, waste, product, forests, and packaging.⁵⁸ At this time, more than a thousand domestic and international suppliers have signed up, which is a large number but nevertheless only a tiny fraction of the company's more than one hundred thousand suppliers. There is evidence that Wal-Mart did lobby to educate members of the Senate about its sustainability agenda, using its political tools to support its social agenda. However, questions can be raised about the firm's transparency and the governance of its political activity. Wal-Mart ranks relatively high in terms of its lobbying expenditures and is quite generous with its political contributions. The majority of the firm's lobbyists are revolving door lobbyists, including former government regulators, Congressional staff and even members of Congress who are now working with lobbying firms and/or private sector organizations. According to the Wharton University and the Center for Political Accountability that developed the Zicklin-CPA index, Wal-Mart lags significantly behind other firms in terms of political transparency and accountability. Its board of directors has little to no oversight of the company's political expenditures. In the long run, this lack of accountability may spillover negatively on the firm's efforts to collectively address greenhouse emissions.

The last category of shared value – building supportive industry clusters – is illustrated by Centene Corporation, another firm on Fortune's Change the World 2019 list. According to Porter and Kramer, a key component of

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shared value is the development of clusters, which may lead to an increase in productivity and innovation. They argue that in order to be successful, a firm needs to develop a strong network of related businesses and suppliers, as well as contribute to strengthening its surrounding infrastructure, including trade associations, academic institutions, and governmental services.⁵⁹ Centene is a healthcare insurer focusing on government regulated plans. The company has placed the development of clusters at the center of its business model through its community outreach and its collaborative approach to resolving health care challenges. A noteworthy example is its Provider Accessibility Initiative. This initiative was developed in partnership with the National Council on Independent Living and health care providers to eliminate barriers to healthcare for disabled patients. Through the provision of grants, the program has assisted healthcare providers across numerous States in eliminating architectural and programmatic barriers to the disabled. Another example of its cluster development was in Ferguson, Missouri, a city that was suffering economically after racial tensions in their community. In this community with little infrastructure, Centene helped to strengthen the community by building a service center and developing support programs such as an education center and a nonprofit Boy's and Girl's club. As suggested by these various examples, Centene is a company that has used its political tools to strengthen its social agenda by lobbying for more access to healthcare. However, the company has not lobbied on the behalf of the disabled population specifically but promoted legislation to expand the role of Medicaid and other healthcare reforms. Nevertheless, and despite having a well-funded political action committee and sustaining relatively high lobbying expenditures, the company has failed in establishing accountability and transparency. Analogous to Walmart's lack of political transparency, the company's social efforts may be undermined by its weak political accountability.

Methods

Following this characterization of shared value, we explore the types of political efforts that firms singled out in the pursuit of shared value goals adopt relative to other large firms. In this section, we outline our sampling strategy, our measures and our empirical approach.

Sample

Since 2015, Change the World, collaboratively organized and published by Fortune, the Shared Value Initiative and FSG (a consulting firm founded by Michael Porter and Mark Kramer), ranks firms that are leaders in terms of integrating business opportunities and solutions for social problems. There

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are some common characteristics amongst firms in this ranking.⁶⁰ For instance, they work often on social issues considered “significant and tied to some unmet need in society, such as those defined by the United Nations’ Sustainable Development Goals.” Moreover, these firms’ social objectives are authentic, aligned with their histories and play out in their operational cultures. Examples of Change the World companies include Novartis, a company that reconceived products and markets as it developed an affordable medicine for members of rural communities in India, and Chevron, who developed an initiative to provide local solutions for employment in the communities where they are located.⁶¹

To examine the types of political efforts of these shared-value firms, we identified U.S. headquartered firms that appeared in the 2018 or 2019 Change the World rankings, resulting in 47 firm-year observations. Then, we created a control group of firms by matching – in terms of total assets, employees and four-digit industry – these ranked firms with other Standard & Poor’s 500 firms that were not in either of the two Change the World rankings. Comparing the two groups allows us to understand whether shared-value firms configure their political resources differently from the firms in the control group. The final sample for our analysis contains 94 firm-year observations. Lastly, for each firm-year, we collected financial data from Compustat, political expenditure data from Open Secrets and data on the level of transparency of corporate political activities from the Center for Political Accountability.

Measures

We have five measures for assessing a firm’s political activity: two for lobbying (lobbying breadth and political connections), two for political spending (political action committee (PAC) contributions and total political contributions) and one for political transparency. In academic research, there has been quite a bit of debate about which political tactics are most effective, as well as about the risks associated with different types of political tactics.⁶² Some researchers argue that lobbying has more strategic advantages than contributions to political action committees. Lobbying allows a firm to have more control over how the money is spent and firm can select the specific issues to lobby, which in turn may lead to more concrete benefits for the firm and, in this case, for society as well.⁶³ Alternatively, others have argued that PAC contributions and lobbying need to be used in tandem, that these tactics complement and reinforce one another.⁶⁴ It has been argued that PAC contributions affect the time and attention that a policy maker gives to the donor, and are more likely to result in returned telephone calls and scheduled meetings.^{65,66}

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Lobbying Breadth. We measure lobbying breadth – also referred to as political breadth – as the number of legislative acts supported by the firm and by the number of government agencies targeted.⁶⁷ The merits of lobbying breadth are that firms have more political allies in terms of shaping governmental policies. However, lobbying breadth may have diminishing returns; as companies expand the number of agencies and issues that they are contacting and informing, they may be involved with agencies and/or issues that only tangentially impact them.⁶⁸

Political Connections. To evaluate political connections, we draw from a novel definition of political connections in recent research by analyzing “the percentage of revolving door lobbyists which includes individuals formerly employed in federal government, including former members of Congress, Congressional staffs, White House staff, or specific departments within the federal government (e.g., Departments of State, Treasury, Energy, Commerce, Transportation, etc.).”⁶⁹ Firms with more political connections will have more access to elected officials and regulators, which then can be leveraged to improve their political influence as well as their legitimacy, status and goodwill.^{70,71}

Political Action Committees. On the other hand, firms (individuals associated with the firm) can also contribute financially to political candidates through a political action committee (PAC).⁷² Political contributions work as financial incentives with the potential to align the interests of policy makers with those of the donors.⁷³ PAC contributions are a measure of direct contributions to political candidates.

Total Political Contributions. PAC contributions only form a part of a firm’s political investments. Therefore, following previous literature, we also examine total political investments of firms in terms of total individual political donations, the firm’s PACs being given to candidates and party committees as well as individuals and organizations giving to outside groups (such as super PACs) and 527 committees.^{74, 75}

Political Transparency. To measure a firm’s political transparency, we use the Zicklin-CPA index, constructed and jointly published by the nonprofit organization Center for Political Accountability and Wharton’s Zicklin Center for Business Ethics. This index captures a firm’s disclosure of political information and corporate governance oversight.⁷⁶ One of the concerns that we raised is the necessity that firms be transparent and disclose information about political expenditures to all their stakeholders, including

shareholders and board members. Stakeholder activists have pushed for more transparency regarding a firm's political involvement by various means, including legislation, shareholder resolutions, and political indices. The Zicklin-CPA index has been influential in increasing political disclosure in 292 firms.

Social Alignment. To measure alignment of political lobby and CSR priorities, we first identified the primary social priorities of the shared value firms in our sample by using the results of the Change the World ranking, which identifies a key social initiative of a firm. For the firms in the control group, we checked their CSR reports. If there was no CSR report, we checked a firm's website for its primary social goals. After selecting the social priorities for all the firms in our sample, we used the Open Secrets database to review all the bills and issues that each firm lobbied to see if there was any overlap with its social priorities. We lagged the political information one year, so that it would line up with the timing of the firm's social efforts. Based on this information, we developed a dummy variable indicating whether a firm lobbied to promote its primary social priority. The measure may underestimate alignment between a shared firm's political efforts and social agenda since we looked at their social priorities more narrowly than the firms in the control groups.

Empirical Analyses

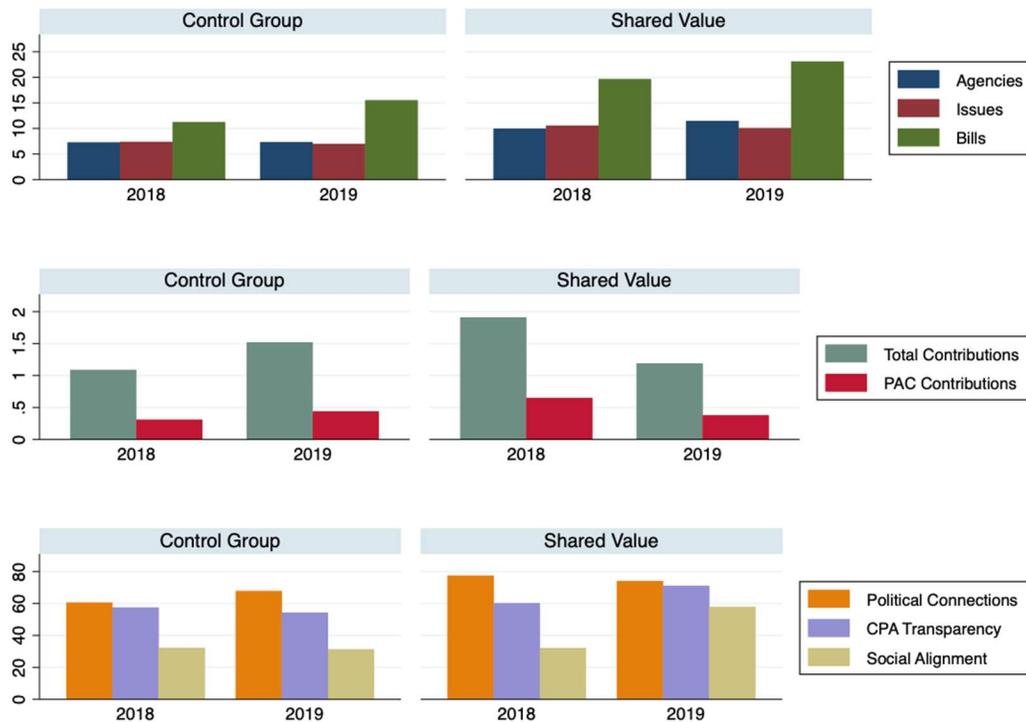
We use two different sets of analyses. First, we analyze group differences between the shared value firms and the firms that are part of the control group using T-tests. Secondly, we use ordinary least squares to conduct an exploratory analysis to evaluate if political efforts and social alignment are correlated with financial performance.

Results

Most firms listed in the Change the World Ranking have engaged in at least one form of political activity (e.g. contributions, lobbying, political connections) in either 2018 or 2019. The average lobbying expenditure for shared-value firms is \$3.27 million and the average lobbying breadth indicates that a firm lobbied 10 agencies, 21 bills and 10 issues. Specifically, the firms that lobbied the most governmental agencies are IBM and Microsoft, lobbying 26 agencies each. In terms of issues lobbied, Alphabet and Intel lead the political efforts with 24 and 79 issues, respectively. Table 1 provides additional descriptive information about all firms. Figure 1 shows the breakdown, by year, of the means of the various political efforts by the firms in the control group and those by the shared-value firms.

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Figure 1. Mean Values of the Political Efforts for Control Group and Shared Value Firms



Note: Values of total contributions and PAC contributions are in millions of dollars. Values of political connections, CPA transparency and social alignment are in percentage.

Table 1. Description of Variables

	Mean	Std. Dev.	Min	Max
Net Income	6,958.08	11,056.76	-6,837.00	59,531.00
Total Assets	248,501.10	575,040.80	1,903.09	2,687,379.00
Political Connections	.69	.31	.00	1.00
Agencies	8.92	8.59	.00	42.00
Issues	8.80	6.23	.00	24.00
Bills	16.86	18.74	.00	70.00
Political Breadth	.00	2.64	.00	8.69
CPA Transparency	60.50	35.78	.00	100.00
Social Alignment	.37	.48	.00	1.00
Political Contributions	1.42	2.16	.00	13.62
PAC Contributions	.44	.54	.00	2.12

Note: N = 94. Monetary values are in millions of dollars.

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Table 2 compares the shared-value firms with the control group, showing that shared-value firms do spend more in lobbying and that, in doing so, they have more lobbying breadth and more political connections. Specifically, on average, shared-value firms have 13 percent more political connections than firms in the control group. In addition, shared-value firms have 1.32 standard deviations more lobbying breadth than those in the control group. In terms of political contributions, there was no statistical difference between shared-value and control group firms; the difference in PAC contributions was only marginally significant, with shared-value firms donating politically \$185 thousand dollars more than control group firms.

Table 2. T Test Mean Comparison

	Means			Difference
	All Firms	Control Group Firms	Shared-value Firms	
Political Breadth	.00	-.66	.66	-1.32 **
Political Connections	.69	.63	.76	-.13 **
Lobbying Expenditure	2.87	2.46	3.27	-.80
Political Contributions	1.42	1.23	1.61	-.38
PAC Contributions	.44	.35	.53	-.18 *
Social Alignment	.37	.31	.42	-.11
CPA Transparency	60.5	56.44	64.55	-8.11

***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Spreading Good and Being Good: Shared-value firms, social efforts, and transparency of political efforts

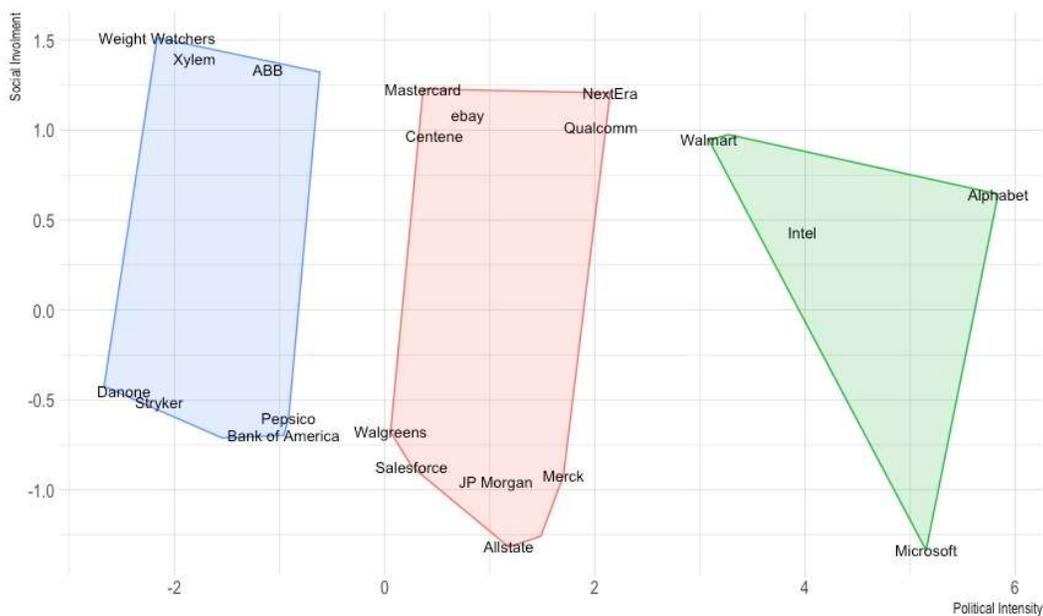
Our first research question was to understand if shared-value firms are more likely to deploy their political efforts to promote their social values initiatives. During our timeframe, only 42 percent of shared-value firms used their political efforts to promote key social issues. Compared to the control group, as reported in Table 2, shared-value firms do not differ in terms of deploying political tools to support their social agenda. Although shared-value firms are not distinct from the control group in terms of their political efforts, it is noteworthy that their political efforts jumped substantially from 32 percent to 57 percent from 2018 to 2019. While the social alignment between a firm's political and social efforts has increased, it is somewhat below our expectation because these companies are considered amongst the best in terms of integrating the delivery of social impact with their competitive goals.

To further explore whether firms with social alignment, we performed an explanatory cluster analysis including political and social efforts variables.

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Using multiple algorithms to define the number of clusters, we identified a three clusters solution that explained 64 percent of the variance in the data. Figure 2 shows that firms differ with respect to their political efforts – low, medium, and high groups, but not in terms of social efforts. On the contrary, firms using their political efforts to promote social initiatives appeared in each cluster, suggesting that the alignment between social and political activities is not contingent on the amount of political efforts. While the social alignment between a firm’s political and social efforts has increased, it is somewhat below our expectation because these companies are considered amongst the best in terms of integrating the delivery of social impact with their competitive goals.

Figure 2. K-Means Cluster analysis of Social Alignment of the Shared Value Firms



Equally concerning is the lack of transparency of some companies in reporting their political efforts. There is no significant difference in political transparency between the shared-value firms and the firms in the control group. The average level of transparency for the shared-value firms is 65 points on the Zicklin-CPA index; this is 21 points above the mean for all S&P 500 firms. However, this average is 24 points *below* the mean for companies in the top tier of the Zicklin-CPA index. One hopeful sign is that, from 2018 to 2019, there was an increase of 11 percent in the disclosure and transparency of a firm’s political efforts for the shared-value firms.

Doing Good by Being Good? Political and social efforts and firm profits

Finally, we explore whether political and social alignment boost a firm’s net income for shared-value firms. Table 3 shows the descriptive statistics and correlations, and Table 4 displays our ordinary least square regression results. Given our small sample size, our findings only constitute an exploratory analysis, indicating potential associations among variables.

Table 3. Description of The Variables and Correlation Table

	Mean	Std. Dev.	Correlations											
			1	2	3	4	5	6	7	8	9			
1 Net Income	6,958.08	11,056.76												
2 Total Assets	248,501.10	575,040.80	.56											
3 Year	2018.37	.48	.02	.08										
4 Political Connections	.69	.31	.23	.17	.04									
5 Political Breadth	.00	2.64	.38	.14	.05	.45								
6 CPA Transparency	60.50	35.78	.35	.33	.06	.38	.51							
7 Social Alignment	.37	.48	.08	-.10	.13	.17	.24	.19						
8 Shared-value Firm	.50	.50	.24	.12	.06	.20	.25	.11	.11					
9 Political Contributions	1.42	2.16	.46	.36	-.03	.26	.59	.38	.02	.09				
10 PAC Contributions	.44	.54	.39	.45	-.05	.39	.55	.47	.16	.17	.67			

N = 94

The empirical results in Model 1 in Table 3 indicate that there are two marginally significant association when considering all firms in the sample. First, increasing political breadth, the number of agencies, bills and issues with which a firm engages politically, by one standard deviation is associated with an increase in the net income by \$673 million. Second, increasing the total contributions by one dollar is associated with an increase of \$1,369 dollars in the net income. Subsequently, in Model 2, we contrast how changes in political breadth vary between the shared-value firms and the firms in the control group. For shared-value firms, there is a significant impact between a firm’s political breadth and its net income, with more political breadth leading to a substantial increase in net income. By contrast, for firms in the control group, a one standard deviation increase in political breadth is associated with a decrease of \$55 million in net income. Moreover, in Model 3, there is a positive and significant interaction effect between being a shared-value firm and displaying political transparency. Interestingly, while increasing political transparency is associated with a decrease of \$33 million

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in net income for control group firms, it increases the net income by \$98 million for shared-value firms.

Table 4. Impact on Firm's Net Income Using Ordinary Least Squares

	Model 1	Model 2	Model 3
Shared-value Firm	2,964.38 (1,819.46)	2,839.62 (1,746.78)	-3,095.19 ** (1,363.25)
Shared-value Firm x Political Breadth		1686.97 ** (703.13)	
Shared-value Firm x CPA Transparency			98.79 *** (35.10)
Political Connections	307.45 (2,097.34)	1,202.73 (2,038.24)	809.46 (1,925)
Political Breadth	673.84 * (371.43)	-55.58 (448.98)	708.05 ** (365.93)
Political Contributions	1,370.01 * (775.82)	1,646.54 ** (777.89)	1,344.08 * (742.33)
PAC Contributions	-3,688.79 (4,442.08)	-4,4968.81 (4,757.98)	-3,734.51 (4,458,22)
CPA Transparency	16.65 (21.93)	17.01 (21.42)	-33.30 (21.32)
Social Alignment	2,265.66 (1,922.46)	2,432.06 (1,909.15)	2,695.01 (1,939.45)
Total Assets	.01 *** (.00)	.01 *** (.00)	.01 *** (.00)
Year	-1,203.24 (1,847.68)	-1,359.97 (1,801.83)	-1,618.63 (1,864.66)
Constant	1,163.61 (1,957.93)	233.09 (2,198.45)	3,772.01 ** (1813.68)
Observations	94	94	94
Adj. R-squared	.40	.43	.42

***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. Robust standard errors in parenthesis.

Discussion and Conclusion

This study provides a snapshot of the types of political tools that shared-value firms are using and an initial, tentative answer to the question whether their political efforts are supporting their societal goals. The results indicate that shared-value firms are making more political investments, in terms of lobbying and PAC contributions, than firms who are not designated Change the World firms. In accordance with the resource-based theory of the firm, it also appears that the shared-value firms' political efforts are distinct in terms of their lobbying, with respect to both the number of connections and the breadth of their lobbying efforts. Although we did not measure this explicitly, it appears that the shared-value firms are maximizing their political capital by hiring lobbyists who have had former political roles and by lobbying with

a wide(r) range of federal agencies. Accordingly, in terms of a baseline with respect to political activity, shared-value firms are willing to make political investments and pursue an active political agenda, thus providing input on numerous issues and pending legislative bills.

The next question is whether shared-value firms use their political resources to support their social agendas. The data indicate that only 42 percent of the firms are trying to educate lawmakers and regulators about the importance of the social issues they are trying to address. In addition, the alignment efforts of shared-value firms were indistinguishable from the firms in the control group, even though shared-value firms are more devoted to their social goals. Furthermore, in terms of social and political alignment, very few firms lobbied legislative bills that corresponded with their social agenda. More often, firms were educating government officials about social issues, so it would be good to see more evidence that firms are taking the next step and helping to push these interests into actual legislation. Even when there is evidence that firms are combining their social and political efforts, these efforts are usually overshadowed by all the other issues such as trade, the economy and firm-specific matters that seem to dominate their political agendas, arguably also under pressure of its shareholders.^{77,78}

Given the empirical results, we would argue that there is substantial room for improvement with respect to political transparency. It is very surprising that the average for political disclosure is relatively low, as more disclosure increases a firm's credibility and legitimacy in the political arena as well as with other key stakeholders. There are examples of socially responsible firms that have been very proactive with respect to their political transparency in 2018 and in 2019, such as JP Morgan, Intel, Microsoft, and Walgreens. Microsoft has even gone further than some firms to make sure its CSR and corporate citizenship explicitly help to shape the firm's political spending.⁷⁹ However, at the other end of the spectrum are firms, such as Wal-Mart, Tyson Foods, Hilton, Centene, Henry Schein and Illumina, that provide very little information about their political involvement to their shareholders and other stakeholders. Our exploratory results suggest one possible motivation for these laggards in terms of disclosure, namely that they may gain financially.

While this study provides only baseline information about the relationship between a firm's social purpose and its political tools, the results provoke some important questions about how well firms are using their political tools to promote public policies that support their social goals. This study also sheds light on the persistent debate about a regulatory approach versus voluntary social responsiveness.⁸⁰ Vogel points out, in his provocative book on the limits of corporate social responsibility, that despite some

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effective multi-stakeholder initiatives, such as the Fair Labor Organization, and some firms' unilateral efforts, pressing social issues – wage rates, labor conditions, child labor, deforestation, human rights in extractive and other industries, greenhouse gas emissions – still persist in the global economy. He argues that CSR is not a substitute for effective government. Moreover, CSR efforts are often “drops in the bucket, nibbling at the edge of major public problems. They are not the road out, the road out is a functioning government, a good court system, economic opportunity for growth.”⁸¹ Recent revisions of the definition of political CSP (pCSR), also acknowledge that the initial definition of pCSR focused too much on soft law, and that the societal optimum may be a mixture of hard and soft law for addressing complex social issues – a point of view receiving broader support.⁸² Given these recent discussions, it appears that if firms are serious about solving social issues, they will need to combine their voluntary, discretionary efforts with lobbying for (hard) legislation that can establish minimum standards on pressing social challenges such as human rights, labor issues, and/or environmental issues.⁸³

In terms of future research, much theoretical and empirical work remains to be done before we can understand if and when firms align their political and social nonmarket strategies, and to what consequences. One suggestion is that a firm's efforts at aligning key social issues and political efforts should be examined using a much larger data set over a longer time period. With the cross-sectional approach that we took, it is not possible to capture more recent arguments, such as that the relationship between CSR and political efforts would be dynamic. According to Rivoli and Waddock, “what is considered to be responsible behavior by corporations shifts and becomes normalized through institutionalization processes over time, making it time and context dependent.”⁸⁴ Applying this logic, it is quite possible that the firms that currently make the Change the World list are first movers in terms of developing innovative responses to pressing societal issues. These shared-value firms are examples of firms that are willing to undertake new strategic initiatives to resolve pressing social problems because it will distinguish them from their competitors.⁸⁵ However, it may take time for public expectations to change and for institutional pressures to increase such that additional firms want to make changes in their social policies and practices, too. Moreover, these firms may push for laws to be passed, because they will want all firms in their industry to incur the same costs of implementing a similar social agenda.^{86,87} This possibility may imply that our research into the alignment of a firm's social and political efforts is premature in terms of capturing the political efforts in support of firms' social agendas. Nevertheless, given our exploratory analysis, we would argue that, if firms are

really interested in solving pressing complex societal issues, they can do much more with their political connections to push their social agendas. The choice is theirs.

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